





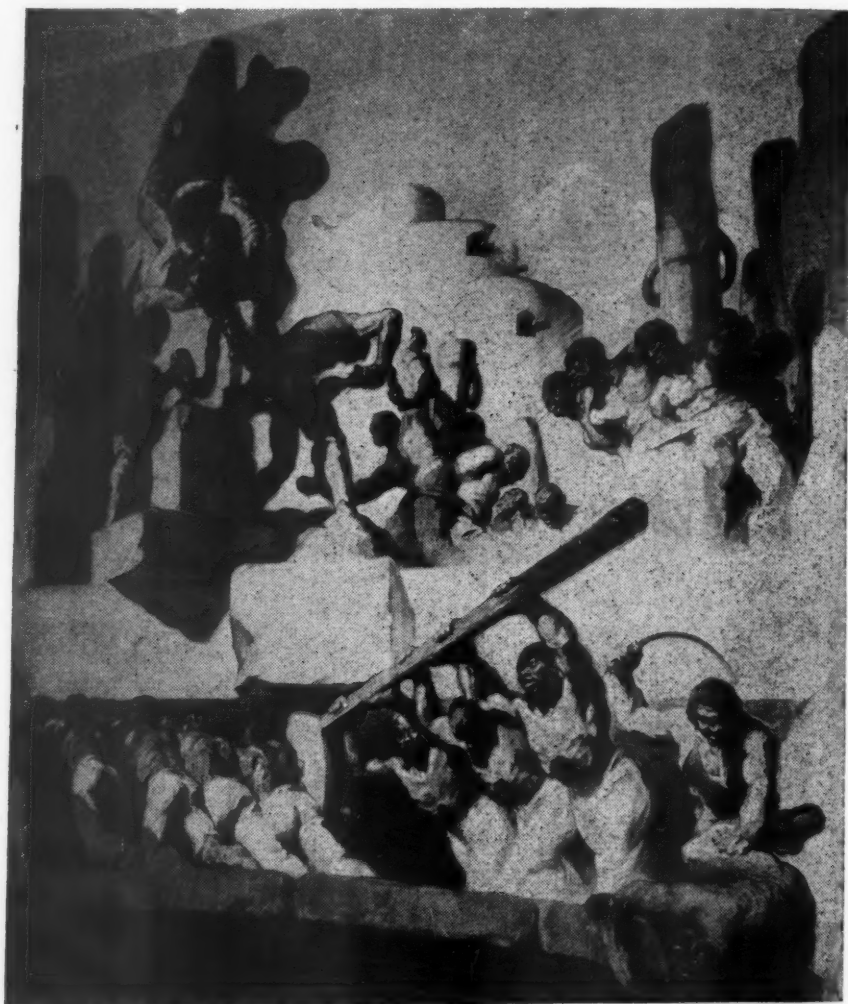
# Public Utilities Almanack



J A N U A R Y



4	T <sup>h</sup>	Telegraph operators throughout the country declared a general strike, 1870. First simultaneous broadcasting by wire-connected radio station, 1923.
5	F	JAMES WATT obtained his first patent on his steam locomotive, 1769. Leavenworth, Pawnee & Western R. R. (original Union Pac. line) organized, 1857.
6	S <sup>a</sup>	First telephone message from submarine under water to land, 1898. Nashville, Tennessee, permitted horse-car lines to use electric motors, 1889.
7	S	First passenger revenue was obtained by the Baltimore & Ohio Railroad, 1830. First steamboat through the Panama Canal was the " <i>Alex. La Valley</i> ," 1914.
8	M	Automobile trucking service by railroad motor coaches was inaugurated, 1923. MATHIAS BALDWIN completed the first American-built locomotive, 1831. 
9	T <sup>u</sup>	Joint rail-air service was established between the Americas, 1929. Construction was begun on South Carolina Canal & Railroad Company, 1930.
10	W	Telephoto service between London and Berlin was officially opened at London, 1929. First commercial telephone exchange in Mississippi established at Vicksburg, 1881.
11	T <sup>h</sup>	FLOYD L. CARLISLE proposed open discussion of N. Y. power problem, 1930. First cab service was furnished by <i>Hotel St. Fiacre</i> , Paris, 1640.
12	F	Cascade Tunnel, longest railroad tunnel in the world, was opened in Washington, 1929. Edison Electric Institute was organized, 1933.
13	S <sup>a</sup>	First direct radio communication between New York and Chile inaugurated, 1930. Railroads reported losses rather than profits anticipated by World's Fair traffic, 1893.
14	S	First public demonstration of radio telephony between New York and London, 1923. Pioneer electric freight locomotive was completed in Connecticut, 1888.
15	M	State Corporation Commission of New Mexico held its first meeting, 1912. First regular passenger service on any U. S. railroad was inaugurated, 1831. 
16	T <sup>u</sup>	Contract for building New York subways at cost of \$35,000,000 was signed, 1900. JOSEPH HENRY, N. Y. school teacher, invented his "electric engine," 1833.
17	W	BENJAMIN FRANKLIN, pioneer in electrical science, was born in Boston, 1706. JOSEPH B. EASTMAN was renominated for the Interstate Commerce Com., 1930.



*Painting by José Maria Sert*

*Courtesy of Rockefeller Center, N. Y.*

## Man's Struggle Upward

*"He is the freeman whom the truth makes free,  
And all are slaves besides."*

# Public Utilities

*FORTNIGHTLY*

VOL. XIII, No. 1



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## Are Power Projects Outrunning Potential Markets?

Serious business problems resulting from proposed Federal developments in territory already over-equipped

By OSWALD WEST  
FORMER GOVERNOR OF OREGON

ACCORDING to government surveys of our national water-power resources, the waters of our forty-eight states carry over 50,000,000 potential horsepower—of which approximately 25,000,000 is to be found in the Pacific Northwest.

Washington leads with around 10,500,000; Oregon follows with 6,000,000; Idaho 4,000,000; Montana 3,500,000; and Wyoming with 1,000,000. However, only a very small percentage of this Northwest power has been developed, and such development has been very largely at the hands of private interests.

Although close to 95 per cent of

Oregon's potential water power is still publicly owned and controlled and available for public development the cry of the politicians has led the folks to believe that the state has lost, completely, a great inheritance and its people are thus forever doomed to pay tribute to the power trust. Horse feathers!

Over fifty years have passed since the birth of the electrical industry and, notwithstanding its parents selected Oregon as one of the first playgrounds for the infant, not over 5 per cent of the state's water-power resources has passed from public to private control and but three fifths of this

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is represented by vested rights. The other two fifths is in the nature of inchoate rights which may, or may not, ripen into vested rights, depending upon the good faith shown, and diligence exercised, by the appropriators in the construction of works and the application of the waters to a beneficial use. Only a very small percentage of Oregon's power development has been accomplished through public agencies. Such developments, however, appear to have been fairly successful.

**F**OR nearly thirty years a small number of earnest conservationists have been at work in this state. Their efforts have been constructive and borne fruit, yet the survivors of this group have, in the last few years, been pushed aside by a bunch of clever political opportunists who see in water power a means of being lifted into public office. These Johnnie-come-latelies have taken the center of the stage. Although they don't know what it is all about, by making an ungodly amount of noise, they get away with all but murder. None of these eleventh-hour boys was in the picture when the early battles of conservation were fought—battles that date back to the days of Theodore Roosevelt, Gifford Pinchot, and George E. Chamberlain. It was in Governor Chamberlain's administration that Oregon's first water code was enacted.

It was while serving as state land agent under Governor Chamberlain that I became interested in the conservation question. I gave earnest support to the Roosevelt-Pinchot-Chamberlain policies and, in all these

years, have experienced little or no change of heart. So, in entering upon a discussion of the water-power question, I do so, not as an enemy of public ownership, but as a friend of legitimate development—public and private.

Like many others, I noted early the great power possibilities on the Columbia river, an interstate stream. At that time its development was looked upon as a joint project for the three states particularly concerned. Obviously it was beyond the power and financial resources of any one of the states, and Federal aid was then not even a dream.

As governor (1913) I pointed out the legislative, and other, steps which should be taken in order to prepare the way for tri-state development, but what I had to say fell upon deaf ears. Others tried to awaken the public but with no better success. The great majority of the people showed an entire lack of interest in such public undertakings and seemed to be satisfied with private development and distribution of power—in fact they held the doors wide open to private capital with the hope of inducing it to enter the state and engage in the business.

**W**ITH Woodrow Wilson came Franklin K. Lane, as Secretary of the Interior. Lane was a conservationist, a practical conservationist. He did not deem it necessary to lock up our natural resources in order to conserve them. He believed it was possible to bring about early development—particularly water-power resources—by both public and private interests without waiving such governmental con-



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trol and regulation as was necessary to safeguard the public interest.

**E**ARLY in 1913, when the Ferris bill, carrying his ideas, was before Congress, Secretary Lane wired me and, among other things, said:

"I have repeatedly said that the money that comes out of Western resources ought to be used in the development of the West. In accordance of this thought, I have tried to secure the passage of legislation that would do two things—open our Western resources to immediate development and secure out of the development money with which the West may be developed through new reclamation projects. We have no law under which capital will undertake to develop hydroelectric power projects upon government land because no one has power to grant a permit for the use of these lands excepting one that is revocable at the pleasure of the Secretary of the Interior. This is not satisfactory to capital and capital is not unreasonable in demanding that a permit shall be granted for a fixed term. Therefore, I have urged that the permits be made for fifty years. But I will not agree that the people of the country, the states, and the municipalities shall not have another chance to determine what is a wise policy to pursue with respect to the development of hydroelectric power. Accordingly I have urged that at the end of fifty years the government shall have the right to renew the permit or that the states or the municipalities or the Federal government shall have the right to take over the plants by paying the fair value of the physical properties."

**T**HAT remedial legislation was needed was admitted by all, yet, due to conflicting interests, it was long delayed. The hard-boiled section of the private power interests wished to close the door to public development, and the radical public ownership crowd wished to choke private de-

velopment. In time, however, those who wished for sane progressive, remedial legislation prevailed. The Federal Power Act was to come later.

As a result of the passage of the Desert Land Act of March 3, 1877, the waters of the several public land states, theoretically at least, passed to the control of such states. While it is maintained by many that the Federal government has never parted with its original ownership of these waters, state jurisdiction seems to be recognized, and compliance with state laws governing the appropriation of waters is required as a condition precedent to the issuance of power permits or licenses by the Federal authorities.

**D**UE to its ownership of lands needed for power sites and transmission lines, and its control over navigable streams, the Federal government has become the "big boss" when it comes to the "say" in matters of power development. The states may kid themselves with the belief that they own and control the waters, but they have all but ceased to be a factor in the game. The Federal government, directly or indirectly, controls at least 95 per cent of our water-power possibilities.

Oregon, with a wealth of water power, has experienced but small development, and this largely at the hands of private interests. Although its people enjoy far more favorable



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rates than prevail in the East and South, the local utilities have been subjected to vicious attacks. The politicians opened up in the last campaign for governor. Everything in the way of distress was charged to the utilities—even the low price of wheat and lumber.

It was contended by these self-appointed saviors of mankind that the salvation of the people of this state depended upon the prompt development of her water-power resources and that the door should be forever closed to private enterprises. Those who were foolish enough to suggest that it might be good business to encourage both, as one would serve to check and regulate the other, were promptly branded as friends of the power trust. I had the temerity to suggest that it took money—cash money and lots of it—to construct a power plant with its transmission lines and distribution systems; that, in view of this, the state and municipalities should confine their experiments to one or more of the smaller projects within the state—leaving the Columbia development, with its enormous cost and involved interstate, national, and international questions, to the Federal government. This view was taken by the Republican and Democratic candidates for governor, but the people would have nothing of it. They voted for the Independent candidate who promised to develop everything in sight, big or little, and “without cost to the taxpayers.”

**T**HIS “without cost to the taxpayers” hokey carried the day. The plan was to issue and sell public utility certificates. Such certificates, how-

ever, were not to become general obligations of the state, or its municipalities. They were to be supported by a lien upon the project properties. The holders could look to the properties for their security and to operating revenues for payment of principal and interest. The people were told that utility profits were enormous and that the earnings from any proposed project would quickly retire the utility certificates. The plant would then be free from debt. The people would get light and power at little or no cost. Everything would thus be “jake.”

**I**N this power controversy, it seems, there is no middle ground and no place for reason. When, twenty years ago, I was preaching the doctrine of Federal control and protection of our water-power resources, I was branded as an enemy of development and progress. One opposition but fair minded paper had this to say:

“Read ex-Governor West’s article. He may be right. Thousands think he is. No one seriously questions his sincerity or his intense loyalty to his convictions and the people of Oregon. . . . Many hold the same views and look to him as a leader and guide. They feel that he is prompted only by what he conceives to be a love for his state and a firm conviction that the state’s welfare will best be subserved by adopting measures (such as the Ferris bill) which investors in power enterprises regard as shutting private capital out of the state so far as undertaking further power development is concerned.”

**T**WENTY years later for holding to, and preaching, the same doctrine, I was to be branded, by an eleventh-hour bunch of political opportunists and embryonic power experts, as being opposed to public power development. The irony of fate.

Well, the “hydrophobics” won the



### Need of Customers to Absorb Overproduction of Power

**T**HE electrical power capacity in the Northwest now amounts to around 1,900,000 horsepower which is twice the aggregate peak-load requirements in any month of this year. Where to find a market for this surplus power is a question being asked by the private power interests. Where to find a market for the Grand Coulee and Bonneville power is a question that will soon confront the government officials."

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day. They proceeded, through legislative action, not only to kill a large private project then under way on the Klamath river, but practically to end further private power development in Oregon. However, no public utility certificates have been floated nor have any power plants been constructed "without cost to the taxpayers."

The hydro-politicians were soon to find themselves out on a limb. The people, moved first through their emotions, later began to reason and to awaken to the fact that they had been peddled a lot of applesauce. The day of reckoning was fast approaching when came the national election, President Roosevelt, and the PWA. The day was saved, pretty much to the satisfaction of every one in this neck of the woods. Our Columbia river development dream has ceased

to be a dream and is about to become a reality.

**P**RESIDENT Roosevelt in his campaign speeches outlined his policies, in reference to the protection and development of our natural resources. He proposed the early development of the navigation, power, and irrigation possibilities on our major waterways and the Columbia river was included in his proposed plan. The public works' program adopted by Congress opened the way for early action by the President. The Columbia river was accepted as one of the several proposed gigantic undertakings. The sum of \$63,000,000 has been pledged for the development of the Grand Coulee project on the upper river in Eastern Washington near Spokane, and \$31,000,000 for the development

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of the Bonneville (Oregon and Washington) project on the lower river about forty miles east of Portland, Oregon.

The question of navigation does not enter into the Grand Coulee undertaking. It is a power and irrigation development but primarily irrigation. However, due to overproduction and low prices in the field of agriculture, the irrigation feature of the development has been deferred until times are more propitious. So, for the time being at least, the Grand Coulee may be looked upon as purely a power project which, deprived of anticipated revenues from pumping service rendered irrigation projects, will have to look to the industrial, commercial, and domestic fields for sale of its product.

**P**OWER and navigation are both factors in the construction of the Bonneville Dam. This dam is the first of a series of proposed improvements which, when completed, will make the Columbia navigable for boat and barge traffic as far as the Snake river. The Bonneville works, as designed, call only for locks sufficient in size to accommodate boat and barge traffic, but a demand is being made to have these locks enlarged so as to accommodate ocean-going vessels which the slack water above the dam will permit to move as far as the Dalles, or about 100 miles above Portland.

At Grand Coulee a development of 670,000 horsepower of electricity is contemplated. The Bonneville dam, designed for both power and navigation, calls for ten generating units, which, when installed, may produce

around 600,000 horsepower, however, but two units with a combined capacity of 120,000 horsepower will be installed at this time—the foundations only being placed for six of the additional units. However, its eventual capacity may be figured at 330,000 horsepower which, added to the 670,000 proposed development at Grand Coulee, will give us 1,000,000 horsepower—the present maximum demand in the Northwest.

**T**HE electrical power capacity in the Northwest now amounts to around 1,900,000 horsepower which is twice the aggregate peak-load requirements in any month of this year. Where to find a market for this surplus power is a question being asked by the private power interests. Where to find a market for the Grand Coulee and Bonneville power is a question that will soon confront the government officials.

This government-produced power must be sold in a field served largely by private utilities that are able to produce twice as much power as is required to meet the present demands. The situation is, therefore, not altogether promising. The day for playing politics is past. Unless new business, and lots of it, is developed, somebody is going to be fooled or hurt. If no new business is developed, the now well-served field will become a battle ground for competition and God only knows what the outcome will be. The people are demanding adequate service at the lowest possible rates. They are going to buy where they can buy the cheapest. Whether the government can offer the best service and the lowest rates remains

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to be seen. If so, it will get the business and the private utilities, with their tens of thousands of small stockholders and bondholders, will have to take it on the chin and call it a day. If, however, the private utilities are able to hold their own, the government's Columbia developments are apt to stand as white elephants for years to come.

**I**F the private utilities are to be given a fair break in the competitive field, the question of taxation must be solved. At present approximately 15 per cent of their gross receipts, from all sources, go for taxes. If they were relieved of this burden many a red school house would be closed, but rates could be reduced to a point where the most rabid "hydrophobic" would be all but satisfied. Should the publicly owned plants assume a similar tax burden, and it be reflected in their operating costs, they

would be placed upon a more equal basis with private enterprises.

**T**HESE are problems, however, which the political power experts will have to work out. The day for hooley is past.

The people of the Northwest are extremely happy over the prospects of the Columbia developments and all wish to have them prove both an operating and financial success. Also, all (at least all fair-minded people) wish to see the private utilities, now in the field, get a break. Therefore, "more business and less politics" must be the battle cry of our people in the coming years.

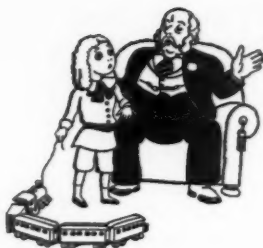
As stated by Mr. David E. Lilienthal, of the Tennessee Valley Power Authority, in his Atlanta speech, the problem now facing the public is how to get the "tremendous existing and future supply of electricity to the people."



### Price Control Problem in Colonial Days

**I**N 1628 the price of tobacco in silver had been 3s. 6d. per pound in Virginia. The cultivation increased so rapidly that in 1631 the price had fallen to 6d. In order to raise the price, steps were taken to restrict the amount grown and to improve the quality. The right to cultivate tobacco was restricted to 1,500 plants per poll. Carpenters and other mechanics were not allowed to plant tobacco 'or to do any other work in the ground.' These measures were ineffective. The price continued to fall. In 1639 it was only 3d. It was now enacted that half of the good and all of the bad should be destroyed, and that thereafter creditors should accept 40 pounds for 100; that the crop of 1640 should not be sold for less than 12d., nor that in 1641 for less than 2s. per pound, under penalty of forfeiture of the whole crop. This law was ineffectual as the previous ones had been, but it caused much injustice between debtors and creditors by impairing the obligation of existing contracts. In 1645 tobacco was worth only 1½d. and in 1665 only 1d. per pound."

THE STORY OF MONEY  
By Norman Angell.



## Not All That Glisters Is Gold

Views of a country banker on financial policies of timely interest to utility owners and everybody else.

By FREEMAN TILDEN

**Y**EARS ago—a good many more than I like to remember—when I was a barefoot urchin running savage in the summer time in the fields and woods, I made a wonderful discovery. I say I made the discovery; but I ought to say that *we* made it. A similarly freckled and stub-toed boy named Smith, about my own age, was the codiscoverer. We found a gold mine.

For at least three hours we were rich—richer than Croesus. We just sat and stared at that outcrop of gold, and gasped, and wondered. It was some time before we could recover sufficiently to spend all our money. But when we did get at that pleasant diversion, we made a mighty fine job of it. We were not stingy. We showed that we loved our parents. The first thing we did was to retire our respective fathers from active work, and endow them with a fine mansion, plenty of servants, and a string of blooded horses. We en-

riched afterwards, as we talked, nearly all our young chums, except those with whom we had recently quarreled. The latter we intended to snub and lord it over, till they turned green with envy and anger. We planned to get control of the school committee, have our principal fired, and a nice friendly man put in his place. I don't know all that we planned. It was a wonderful two or three hours.

**B**UT when my young companion and myself displayed the gold mine to members of our families, the dream was over. We learned that what we had discovered was not gold, but a very pretty—and worthless—metallic moonshine called iron pyrites—sometimes known as “fool's gold.” The truth is, nobody of good eyesight that has ever seen free gold in its ore matrix, or in nugget form, could ever again be misled by this sulphide of iron, gay in color as it is. But, you see, we had never seen gold in its raw



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state. And though we weren't fools, we were fooled.

I was thinking of this boyish adventure just the other day, as I sat in the bank and listened to the excited declamation of one of our customers who came in to tell me how every thing was going to be all right with the country, with industry, and trade, and agriculture, just as soon as the "government puts through its gold policy." When Herman got through declaiming, I said to him, "My friend, I don't think you are really talking about gold. I think you are talking about iron pyrites."

"Iron pyrites," says Herman, snappily, "never heard of it. What is it?"

"Fool's gold," says I.

Well, Herman went out of the bank in a huff. He muttered something about not letting any old hunk call *him* a fool. But Herman is really nobody's fool, and besides he has a lot of real good nature, and he'll get over his peeve in a few days. Meanwhile, he'll be thinking over the matter of the "gold policy" a little more, which will do him no harm.

**N**ow, at the outset, I want to say that I not only don't profess to encompass this tremendous problem of currencies, price levels, and international exchanges, with my poor mind; not only that, but I distrust anyone that claims to know all about such things. So far as I know, the wisest economists will admit to you that after all is said and done, there are intangibles—and important intangibles—that defy analysis. But I'll tell you what I do know, and I know I know. I know that there is a certain basic morality in the affairs of the

world, including the world of men, which will not permit you to benefit in the long run by trying to cheat. Or, if you want to put it another way, you cannot get something for nothing.

**I** KNOW that the cure for debt is *not* the contraction of more debt. I know that if you have one bushel of potatoes, and you choose to call it two bushels of potatoes, you can do so, but you still have one bushel, in the final estimation of your stomach. I know that if you have a 36-inch yardstick, and one pound of cotton cloth, you can either double or halve your measuring stick, if you want to, but you still have the same amount of cotton cloth. I know that if we all get together and agree that a one-dollar bill is a two-dollar bill, and agree to raise everybody's income to double the present income, and everybody's outgo to double the present outgo, we are just exactly where we started. And I know that if we agree that a one-dollar bill is a two-dollar bill, and we raise *some* people's income to double, but not others'; and increase *some* people's outgo to double, but not others'—then some people will be stung for the benefit of other people.

**N**ow these plain truths—and I invite challenge as their truth—are elementary. The economic wizards and medicine-men in Washington or elsewhere may utter incantations; with the sweetness of their flutes they may hypnotize their hearers into thinking they see the Truth climbing up a rope and disappearing in the sky; but when the spell is over, Old Madame Truth will be sitting there in front of you just as pretty as ever.

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Elementary, I say; and you might therefore wonder why otherwise straight-thinking men and women can be bamboozled into thinking that government can produce prosperity by tinkering with age-old processes: trying to cheat natural forces, indeed. The reason why the average man cannot see the forest on account of the trees is that the existence of the trees is being bawled into his ear, and no mention made of the forest. That, and the additional fact that human nature makes every man, unless he is very wary, believe to be true what he ardently wishes *may* be true.

My innocent friend and customer, Herman, wanted to tell me, among other things, that the present gold policy of the administration is going to make business better (which would cheer Herman and myself considerably) because it is going to raise prices, which will stimulate spending, which will put more people to work, which will . . . etc., etc. No need to enlarge on it. We all know. Herman is one of our local merchants. He has had a pretty lean time of it. But, also, he has always been thrifty, and he has a good nest egg in bonds, mostly public utility bonds, and some public utility stock, mainly preferred.

ALSO, naturally, he is a consumer of electric power. He is a capitalist; one of that huge army of small capitalists who own, either directly or

indirectly, the bulk of the stocks and bonds representing the ownership and debt of our incorporated companies.

NOW, I discovered that when Herman talked of the administration's "gold policy," he conceived its purpose thus: To raise the price level of our country (a most desirable thing!) the administration is depreciating the currency unit, the dollar, in international exchange; and this is done, first by suspending gold payments, then by selling, or causing the dollar to be short sold; and finally by announcing to the world, by purchasing gold at a greatly enhanced price over the old fixed price, that we estimate the value of our own paper to be, say, sixty cents on the old gold dollar.

As Herman gets it, when the government has knocked the dollar down to a desirable point of depreciation, say fifty cents gold, it will then stabilize at that figure. At that moment the four billions or so of gold in our treasury will then be, not four billion dollars, but eight billion dollars. If prices haven't risen considerably (and prosperity started to flow) before that development, due to the overhanging *threat*, the halving of the gold content of our dollar will do the business. But Herman knows that even if the four billions become eight billions, that won't do any good as long as the gold is inert. It can only



**Q** "THERE is a certain basic morality in the affairs of the world, including the world of men, which will not permit you to benefit in the long run by trying to cheat. Or, if you want to put it another way, you cannot get something for nothing."

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help if translated into purchasing power, which means buying, employment, and so on. So it will be necessary to get more paper money into the hands of the people.

HERMAN isn't clear as to how that could be done. He didn't believe anything so undignified as to have men stationed on the street corner giving it away like handbills, would be resorted to. I helped Herman out on that point. I told him the government would push it out through the banks, by swapping it for government bonds, and the like. The banks might not like to make the exchange—but neither would they like to be shot at sunrise. Once the banks had the money, Prudence would tell them to stick it in the vaults and wait for a "good borrower" to drop in. But Prudence, though a worthy female, is not running the Treasury. The banks would be promptly told to lend that money, even if they had to employ house-to-house canvassers to find somebody to borrow it.

In good times, money has a way of staying out of the banks. In bad times, it is hard to get it to leave the bank, and it keeps rushing back when you get it out, saying that it is tired and wants a rest. I think we bankers will have to stand at the door with a cudgel, telling the new money to get the blazes out of here and go to work, and not try to come sneaking home every few minutes. Herman asked me why this is so. I told him that money only wants to stay out of the bank and work when people have confidence. He didn't understand that,—but he will when he thinks some more.

I ASKED Herman if he had considered his position as creditor. "You mean the people that owe me bills. Oh, then they'll be able to pay me," he said, "because they'll have more money."

"But you are also a creditor of those public utility companies," I suggested. "You have their bonds. Those are mortgages on their plants and general assets. They owe you money."

"I guess they'll pay all right."

"Certainly. They will pay at maturity, unless you sell your bonds before, in the new dollar, which will have to you a purchasing power of fifty cents, if all goes well. You see, Herman, the theory of the thing is that the creditor is assessed half what is owed him, for the benefit of the debtor, who is relieved of half his debt. Senator Thomas blurted out the story when he bumbled that remark about taking \$2,000,000,000 away from creditors and giving it to the debtors. There was a great hush-hush when the Senator shot off his voice—but really he was just coming down to cases. Similarly, your general store customers, who have run up bills on you, will pay them at fifty cents on the dollar. Of course, if you owe any money, you get a like advantage over your creditors."

"But hang it all, I don't owe any money. I've been keeping even with the board."

"That's your tough luck, Herman."

"Then according to you, I ought to go out and buy a lot of things on credit, and owe as much as possible. I ought to load up with a few good public utility stocks, for instance, paying a little down and then wait-

Effect of "the Lag" in the Price-raising Process



**"T**HE whole success of an artificial boosting of prices, such as is enhanced in the purpose of the gold policy, depends upon what we may call 'the lag.' If all the runners in this race break the tape at the same instant, nobody wins, and the race is interesting but resultless. . . . The government will insist upon somebody being the laggard—taking the loss, in fact."

ing till the gold policy goes through."

**"T**HEORETICALLY, Herman, that's what would be the act of a sage. Theoretically. But actually, there are a few little jokers in the way of so much bliss."

"Well, anyway, the gold policy would be a wonderful thing for the public utility companies, then? They'd be able to pay off their mortgage obligations at fifty cents on the dollar. That ought to make their stock more valuable."

"Theoretically they would. But remember—if the devaluation of the dollar—the object of the gold policy—resulted in merely doubling and halving, as the case might be, there wouldn't be any change at all. There would be no benefit, and no loss, at least internally. The only benefit that could ensue would be to let some people take a licking for the good of others. The administration's efforts for the farmer, for example, have been in the direction of increasing his income, while holding down his outgo. This, if it worked, would be taxing the consumer and taxing capital to help the farmer. Actually, it hasn't worked, so we can forget that.

**"N**ow, similarly, my dear friend, the gold policy, if it stops short at devaluation, is a transfer of capital from the man who has money to the man who needs money. The theory is that business would come back as a result, and everybody, including the victim of the financial assault and battery, would benefit. But remember that the public utility corporation has accounts receivable as well as bills payable, and mortgages maturable. It also buys commodities and supplies, and pays wages. It, too, is a creditor."

"Of course, if wages and prices went up, the state regulatory commissions would have to let the utility companies readjust their charges to the consumer. I see that."

**"Y**ES, of course. But don't forget, my dear Herman, that the whole success of an artificial boosting of prices, such as is embraced in the purpose of the gold policy, depends upon what we may call "the lag." If all the runners in this race break the tape at the same instant, nobody wins, and the race is interesting but resultless (except that some of us die of heart failure). The government will

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insist upon somebody being the lag-gard—taking the loss, in fact. In the case of your public utility bonds, you, my dear Herman, will take the lag. In the case of the public utility corporations, they will take the lag for the consumer. It will be just as hard for the corporation to find the \$500 necessary to pay you (in lieu of the \$1,000 you lent the public utility) as it would have before been for them to find \$1,000. If you don't believe it, listen to this. When the NRA parade began, the utility commission of this state of ours instantly protested to the government that they liked the idea well enough in general, but if it was going to mean higher rates on electric power to the consumer, they wanted to know something about it, and quick. The flare-up died down, because that particular bridge hasn't been reached, and other factors loomed more important; but as capital and corporations are synonymous in the public and congressional mind, you mustn't think for a minute that a levy on capital would miss the public utility companies. In fact they constitute such admirable targets that even a government that couldn't hit the proverbial barn door, would hardly miss them.—Of course, rates would rise; they'd have to. But they would lag."

"WELL, dumb it all," says Herman, scratching what he considers his head, "I guess maybe *stocks* in the utilities would be the best things."

"Maybe, Herman—but you don't see anybody rushing for them at this minute. Theoretically, when people begin to lose confidence in mortgage

obligations, you might expect to see a rush into stocks. And now we come to a delicate point. We have been talking about the gold policy as though it would rest when you get a gold dollar with only half the number of grains of gold in it, compared with the old statutes. We say, breezily, "stabilizing the currency at that point." But my old friend, what if it shouldn't be in the power of any country to stabilize its own currency—Do you know of any way to stabilize *your* reputation in this town?"

"My reputation is good!" said Herman, stiffly.

"Of course it is. But what stabilized it? Was it your own estimate of yourself? Well, well, I guess you see the point! No country can stabilize its currency, not even internally, unless it produces a situation where its say-so is justified by the facts. Now some old curmudgeons and unbelievers, Herman, like myself, fear that the *process* employed in reaching a 50-cent dollar may produce a condition whereby, when we think we have a 50-cent dollar, we really have a 38-cent dollar."

"Oh, now you mean uncontrolled inflation," said Herman. "I ain't afraid of that. That's a bugaboo. Doesn't scare me. This country isn't like Germany was. Don't forget that we still have that old four billions of gold."

"I don't forget that. I said we might think we had a 50-cent dollar, and really have a 38-cent one. But the cuss of it is, we might think we had a 50-cent dollar, and have a 68-cent dollar instead. Our reputation might be too good, Herman. Our present gold policy, if it has the ef-

## PUBLIC UTILITIES FORTNIGHTLY

fect, and it may have, of wrecking Europe's currencies, might cause capital to flow back to this country, frantically looking for shelter, so fast as to disrupt our plans. Prices would fall instead of rise, and so would employment."

"LET me ask you a question, Herman. Do you do business at your store better when you deal with certainties, or uncertainties? When you know what you are going to pay for goods, and sell them for, or when you don't know whether they're going up or down?"

"Don't ask me. I've got a headache now from that."

"All right. Well, that's what happens when a country cuts adrift from its value measure, and begins to juggle its currency. Everything becomes a gamble. The holder of a public utility bond thinks his mortgage claim is going to be diluted. All

stockholders in public utilities, for instance, who are not out-and-out speculators or quick-turn dealers, fear that if capital is to be raided to cancel debts, even an "equity" is going to suffer, partly because its capital will be depleted, and partly because a corporation, having no vote, is the easiest mark for guerilla politicians. With a fluctuating set of value measures, the power rates will bounce, and the utility regulators will be forced from one position to another. You might think that anyway the power consumer would benefit. As consumer, merely ratepayer, he might; but as part of the whole business set-up, you see, he couldn't.

"THAT'S why I say that the gold policy you talk about, as far as its promise for more peace and plenty for you, Herman, is not a gold policy at all. It is an iron-pyrites policy."



### Odd Items about the Utility Services

In 1932 there were 1,525 fatalities resulting from railroad-highway grade crossings as compared to 1,811 fatalities in 1931.

In 1933 the electric industry paid \$250,000,000 in taxes . . . about 13½ cents of every dollar of gross operating revenue. Taxes are one third greater now than in 1929.

NEW YORK has more business telephones than residence telephones, but residence telephones lead in Chicago, Boston, San Francisco, Los Angeles, Washington, and, in fact, in most of the larger cities.

THERE are farmers in almost every state using more than 3,000 kilowatt hours per year. All kinds of farms in all sorts of places are among the heavy users, and it is becoming less and less rare to find farms using 4,000 and 5,000 kilowatt hours a year. Some are using 10,000, 15,000, and 20,000 kilowatt hours.



# In the Public Spotlight



Some distinguished members of the United States Senate, outstanding for their contributions to various lines of thought, who may be seen "in action" quite often on questions of importance to the utilities.

*This is the fourth of a series of pictorial supplements to PUBLIC UTILITIES FORTNIGHTLY that portray commissioners, utility leaders, legislators, advisors, and economists who play important rôles in our economic and social development.*



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SENATOR FROM NEBRASKA

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**Kenneth D. McKellar**  
SENATOR FROM TENNESSEE

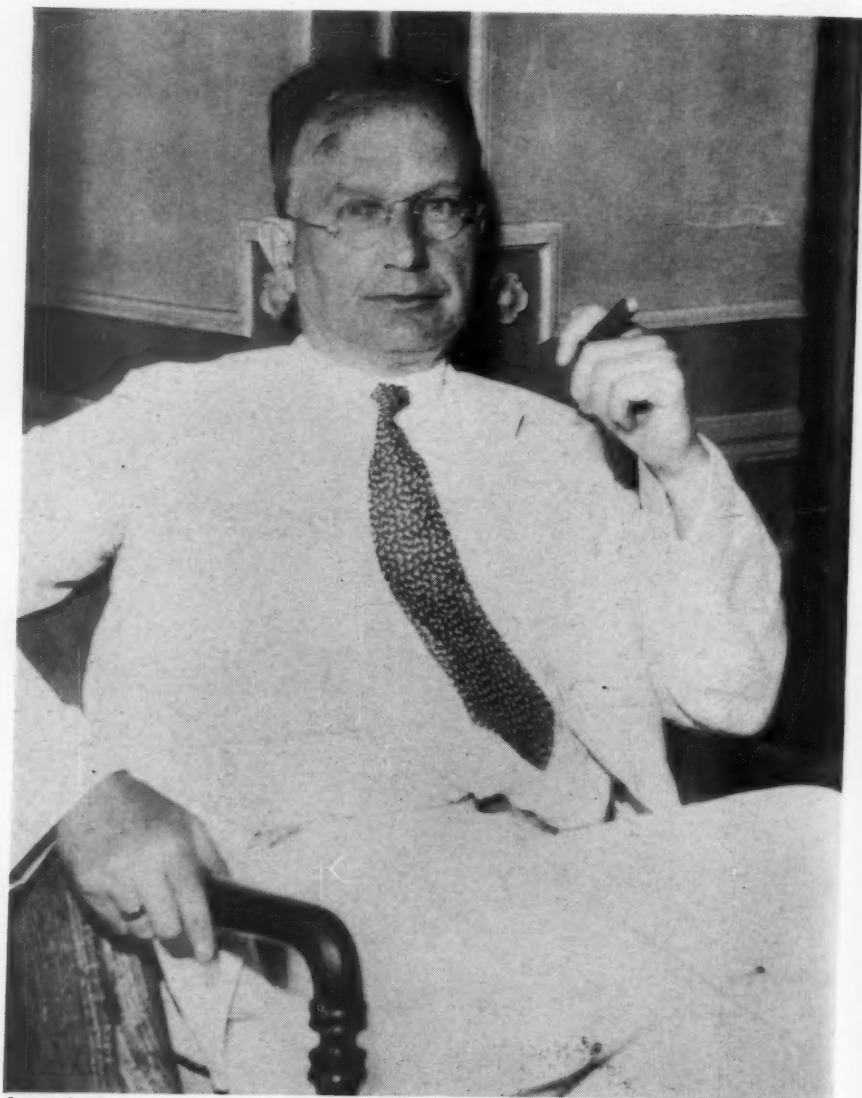
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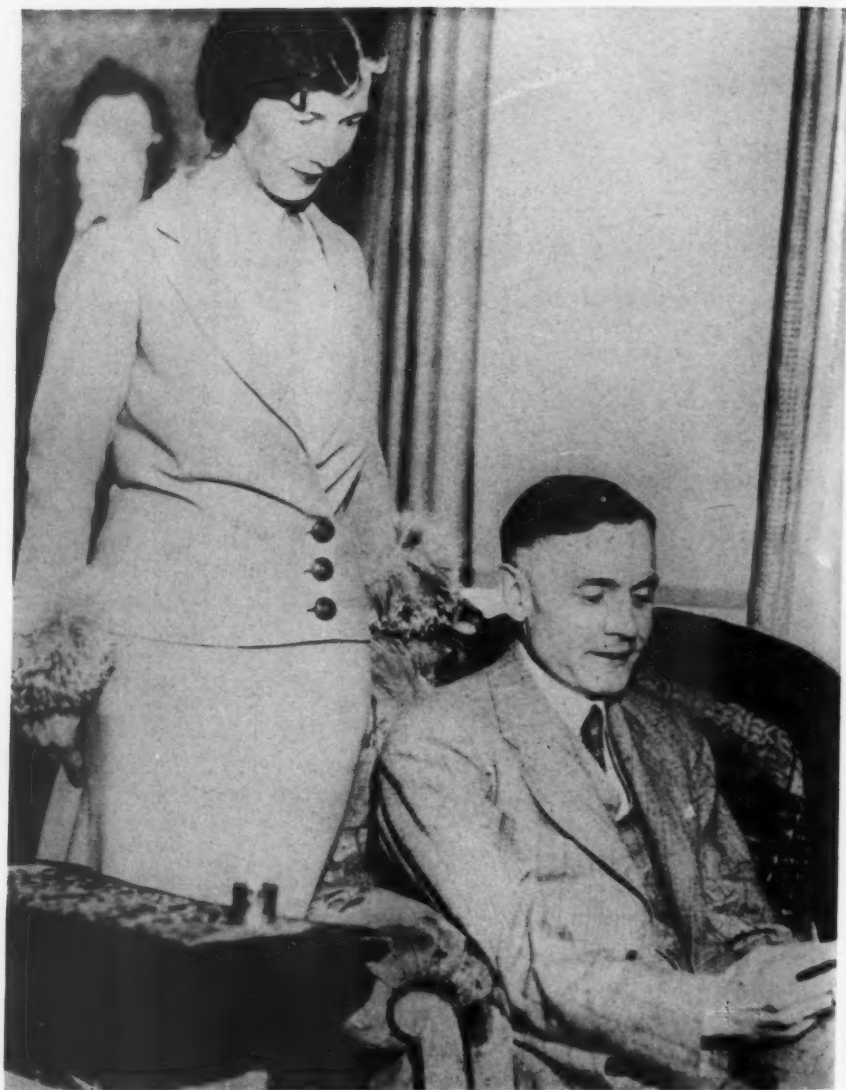
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*Underwood & Underwood*

**Park Trammell**  
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Acme

Homer T. Bone  
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SENATOR FROM WASHINGTON

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Edward P. Costigan  
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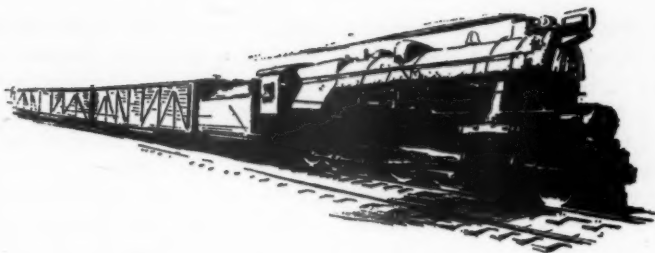
**Gerald P. Nye**  
SENATOR FROM NORTH DAKOTA

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*Underwood & Underwood*

Robert R. Reynolds  
SENATOR FROM NORTH CAROLINA



PROPOSED PROGRAM FOR A

## New Deal in Rail Regulation

Plea for equality of opportunity for the railroads in their competition for the traffic of the Nation, the elimination of favoritism shown to other classes of carriers under existing laws, and the establishment of a comparable degree of control for all transportation agencies.

By HOWARD B. WILSON

**I**N common with many industries in the United States today the transportation industry is in a state of flux and reformation. It has suffered its full share of the evil effects of the economic depression, but its problems will not be solved to the satisfaction of all the groups involved merely through the return of prosperity.

This is because newer forms of transportation have broken the virtual monopoly formerly enjoyed by the railroads, and for the further reason that changing methods of marketing, such as hand-to-mouth buying on the part of wholesalers and retailers, have resulted in different traffic conditions from those previously prevailing.

As transportation is peculiarly a business affected with a public interest, public regulation must keep step with revolving conditions therein.

Hence there has been considerable study during recent months of the transportation problem as a whole and it is recognized that Congress will make determined efforts to amend the Interstate Commerce Act.

Most students of transport questions are agreed that Federal regulation in its present form is a patchwork sort of thing.

The original statute relating to railroads was enacted in 1887 and has been amended and supplemented at various times as occasion arose. Then too there have been several laws dealing with ocean shipping and inland navigation which can scarcely be said to fit into the picture as a whole.

**T**HESE amendments and independent laws have been developed upon a policy of opportunism. Specific problems were legislated upon by Con-

## PUBLIC UTILITIES FORTNIGHTLY

gress when there appeared to be urgent need, the result has been an unbalanced and uncoordinated regulatory system.

For instance, the Interstate Commerce Commission has jurisdiction of rates upon shipments which move partly by rail and partly by water. However, it has no jurisdiction of carrying charges upon coastwise shipments moving from port to port along our seaboard.

**T**HE United States Shipping Board which has recently been made a bureau in the Department of Commerce may control the maximum rates of American vessels engaged in ocean transportation, but it has no power to regulate the minimum rates.

Concerning carriage upon inland waterways, the government has not thus far seen fit to regulate directly the charges and services of carriers, while with that lusty and growing infant of the transport field—motor trucking—Uncle Sam has remained aloof, leaving whatever degree of regulation that has been exercised to the respective states.

It would seem, therefore, that sooner or later Congress must take up the matter of a thorough-going revision of the Interstate Commerce Act and kindred statutes.

Since railroads constitute our most important transport agency, it is logical to approach the problem from their point of view. The Class I rail corporations have recently expressed their joint opinion as to what measures of reform should be adopted and their proposals afford a convenient basis of discussion. The essential principle that should be applied is, in their

opinion, a comparable degree of regulation for all types of transportation agencies. They insist that they should be placed upon a plane of equality of opportunity in the competition for the traffic of the Nation. They seek no unfair advantage over other forms of carriers, but desire Congress to impose the same principles of supervision upon motor trucking and upon water commerce as shall be deemed sound social policy with respect to railroads.

**A**T present there are two schools of thought held by students of transportation. One group believes that we have gone too far in public control of railroad companies—"regulation to the point of strangulation," as some have put it. That group would relax some of the restrictions now applied to the railroads to the end that all types of carriers might compete freely. The second group, on the other hand, asserts that railroad history demonstrates the evils that will ensue from such a policy; hence instead of relaxing regulation it should be extended to the newer forms of carriage.

While the railroads are on record as favoring more extensive regulation of motor and water carriers, they realize that Congress may be slow in adopting that viewpoint. Consequently they have at this time put forth alternative sets of proposals. The one set calls for greater control of motor and water carriers: the other set contemplates that unless and until Congress shall provide such greater control there should be some liberalization of control over railroads.

**S**INCE motor trucks at present furnish the strongest competition to



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railroads, the latter believe that both common and contract motor carriers should be regulated. Common carriers should be required to obtain certificates of public convenience and necessity; to charge reasonable and non-discriminatory rates; to publish rates and adhere to them; and to be subject to prescribed accounting methods and to control of their security issues. The contract carriers should be required to secure a permit; to keep records and file reports with the regulatory body; to carry liability insurance with regard to injury inflicted upon others using the highways; and to observe minimum rates to be fixed by the regulatory body. It is thought that jurisdiction to administer these matters should be conferred upon the Interstate Commerce Commission.

CONCERNING water transportation, the railroads contend that the jurisdiction of the Interstate Commerce Commission should be extended over commercial carriage by water, whether coastwise, intercoastal, or upon inland navigable waterways. This regulation would include both common and contract carriers, and should be of the same nature as that now applicable to railroads.

Under the present law there is some measure of supervision over coastwise and intercoastal vessels exercised by

the Shipping Board Bureau. However, this is inadequate both with respect to rates and to the matter of engaging in this sort of business.

Common carriers should not be permitted to operate without a certificate of public convenience and necessity, which should specify fixed routes and termini. Contract carriers should be required to secure permits from the commission, and shipping brokers should be regulated. The charges of common carriers by water should be published in tariffs and all interested persons should have the right to file complaints with the commission concerning the reasonableness or discrimination. With contract carriers, the commission should have power to control their minimum rates.

Then there is the question of railroad ownership of water carriers. The Panama Canal Act prohibits a railroad company from controlling by any interest, direct or indirect, any common carrier by water operated through the Panama Canal. Nor may a railroad control water carriers in the coastwise or inland trade if there is any competition between the rail and water carriers.

The railroads recommend that these statutory prohibitions be repealed in the event that the water carriers should be placed under adequate regulation.



**Q** "At present there are two schools of thought held by students of transportation. One group believes that we have gone too far in public control of railroad companies. . . . The second group, on the other hand, asserts that railroad history demonstrates the evils that will ensue from such a policy; hence instead of relaxing regulation it should be extended to the newer forms of carriage."

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**A**QUISITION of ownership or control of water lines by railroads would, however, still be subject to approval by the Interstate Commerce Commission. There will be no further need for the provisions of the Panama Canal Act because, should water carriers be adequately regulated, the public will be assured reasonable rates and adequate service thereon. Railroad control of water lines, in such circumstances, would conduce toward the movement of traffic by the cheapest and most convenient routes.

With inland water transportation, it may be said that the government itself furnishes a form of unfair competition to other carriers through the Inland Waterways Corporation. Since 1924 this corporation, whose capital was provided from the United States Treasury, has operated barge lines upon the upper and lower Mississippi river and also upon the Warrior river. Although the corporation pays no taxes and does not have to consider the matter of return upon the investment, it cannot be called a successful enterprise. Operating deficits have been usual in its annual reports. As the corporation in its inception was intended as an experiment only, and since it can scarcely be said to have justified its operations so far as financial results are concerned, the railroads propose that it be discontinued and its equipment be disposed of.

The Denison Act creating the corporation, as amended in 1928, forbids the sale or leasing to any railroad or any person connected with a railroad of the facilities of the corporation. The railroads are now of the opinion that this provision should be changed so as to prohibit such sale except to a

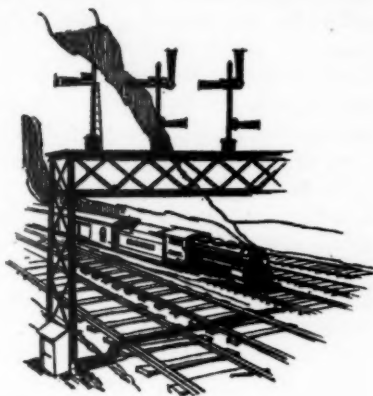
person or corporation who shall give satisfactory assurance that the equipment will be continued in common carrier service in a manner substantially similar to that now rendered by the corporation. If we are to have an integrated transportation system under thorough-going regulation, the railroads should be in a position to acquire the facilities of the Inland Waterways Corporation if the latter be dissolved.

**B**EFORE leaving the subject of inland water transport it is interesting to note a novel suggestion of the rail executives with regard thereto. They propose that charges should be assessed against all commercial users of improved waterways in order to compensate taxpayers for their investment in them. It is suggested that an Inland Waterways Revenue Board should be created to promulgate a system of tolls for the use of improved waterways. The board should be authorized to vary such tolls upon different streams and parts of streams in such manner as to reimburse the government for the expenditures it has made in the improvement and maintenance of these watercourses. At the present time it may be said that ships operating upon such improved waterways are in effect receiving a government subsidy.

**U**PON the presumption that competitive types of carriers will not be placed under sufficient regulation in the near future, the railroads contend that certain changes should be made in the rate provisions of the Interstate Commerce Act. One of the important proposals is that relating to minimum rates. In order to meet the competi-

## Fair Competitive Opportunity for the Railroads

**"WE** should remember that railroads have made a large contribution to our national development. They have invested huge sums in their roadbeds and equipment, all of which has been devoted to the service of the public. It is submitted, therefore, that our regulatory policy should be such as to afford equality of competitive opportunity for all types of transport agencies."



tion of unregulated carriers, it is proposed to deprive the Interstate Commerce Commission of its power to refuse to approve proposed rate tariffs on the ground that they are too low. When a proposed tariff contains an affidavit by the chief traffic officer of a railroad that the rates therein are necessary to meet competition of unregulated carriers, it is proposed the commission may not prescribe higher rates.

That the railroads are making this proposal is eloquent testimony concerning the force of motor and water competition. However, it is conceivable that such an amendment might open a door leading to bitter and protracted rate wars. Such an occurrence could only eventuate in destructive consequences for all types of carriers.

**T**HE speed with which revisions of rates may be put into effect is another matter embraced in the railroad program. Under the existing law a rail rate may not be altered in less than

thirty days' time, except upon special permission granted by the commission. Furthermore the commission may suspend, for a much longer period, rates filed with it in order that that body may investigate the propriety of the proposed rates. These provisions often render the railroads impotent to adjust their charges quickly enough to cope with rivals.

**I**T is therefore urged that the commission have no power of rate suspension when the chief traffic officer of the railroad makes affidavit that the proposed tariff is necessary to meet the competition of unregulated carriers. It is further proposed to afford greater flexibility in rail charges by permitting rate changes upon five days' notice to the commission if the traffic officer of the company shall make such affidavit as stated above.

The third section of the act is intended to prevent unjust discrimination by railroads as between persons, places, or kinds of traffic. In administering this section the commis-

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sion has developed many rules and principles with regard to what constitutes an undue preference to some kinds of shipments with the resulting undue prejudice to others. These decisions have greatly restricted the freedom of railroads in adjusting rates in accordance with changing traffic conditions. Consequently the roads sometimes find themselves unable to hold their traffic as against trucks because the rate changes they might wish to introduce would violate the third section. Therefore, it is believed desirable to amend that section so as to provide that when necessary to meet competition the railways may make rates independently of the rates upon other commodities between the same or other points. Such amendment would place the railways in a stronger competitive position.

Highway and water competition also account for the railroads advocating that the "long-and-short-haul section" of the act be made to read as it did prior to 1910.

**I**T is now unlawful for a railroad to charge any greater compensation for transporting passengers or like kind of property for a shorter than for a longer distance over the same line or route, in the same direction, the shorter being included within the longer distance. The commission may make exceptions to this rule upon a proper showing by an applicant road.

The outcome has been considerable confusion in the rate structure and some injustice. Traffic has been lost to the railroads through their inability to withstand competition at more remote points, yet intermediate territory has not benefited. Hence it is

urged that the situation can be remedied by restoring to the section the phrase "under substantially similar circumstances and conditions." Thus the prohibition would not be applicable where the roads were faced with destructive truck competition. The entire section, indeed, may be superfluous in view of the fact that the statute forbids any form of undue discrimination. Railway regulation in England is quite effective without any long-and-short-haul provision.

Another superfluous rate provision of the act is the Hoch-Smith Resolution of 1925 directing the commission to ascertain the effect of rates upon agriculture, industry, and commerce. It has not benefited shippers, although it has caused costly investigation. In addition the rule of rate making incorporated into the act by the amendment of 1933, directing the commission to consider the effect of rates upon the movement of traffic, makes the resolution mere surplusage.

A matter that most students of transportation are agreed stands in need of revision is that of rate claims against railroads.

Recently a former member of the Interstate Commerce Commission stated that the present rules and practices with regard to rate claims have resulted in nothing short of a "racket" against the rail corporations. Shippers are allowed three years from the time the cause of action occurs in which to file suit for overcharges. Of greater importance is the rule that when the commission has ordered that a particular rate under which shippers have paid charges is unreasonable it may award reparation to shippers without proof of actual damage ac-

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cruing to them from the collection of such overcharges.

**I**N many instances the shipper has passed the freight charge on to his customers and yet he is permitted to recover from the railroad the excess above what is decreed to be a reasonable rate. Once a rate is held to be unreasonable and reparation awarded to one complainant, every other person who paid that rate during the period may claim reparations without proving direct injury therefrom. In addition the reparation award includes attorney fees.

It is apparent that these conditions are not justifiable.

In ordinary lawsuits a plaintiff must prove actual damage in order to recover and he must pay his attorney fees himself. For these reasons the railroads submit that the law on reparations should require proof by the shipper of his actual injury from overcharges.

The commission has favored the enactment of such a rule for a number of years. The railways believe it would be fair for shippers not to recover attorney fees, and also urge that the period for filing suit be shortened to six months from the date when the cause of action occurs, with ninety days additional in case that written no-

tice should be filed with the carrier.

Space has not permitted full discussion of the current issues in the transportation industry as above enumerated. However, the mere statement of these issues and their background may serve to clarify thinking with regard to them. Questions of taxation, financing, and state regulation have not been touched upon for the reason that the rail executives have accorded separate treatment to these topics.

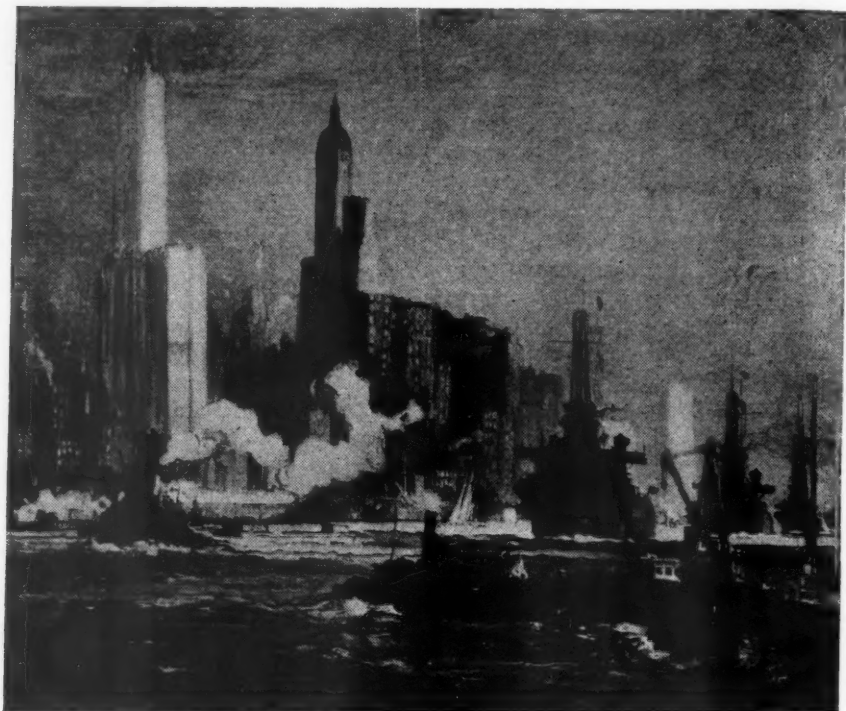
**W**E should remember that railroads have made a large contribution to our national development. They have invested huge sums in their roadbeds and equipment, all of which has been devoted to the service of the public. It is submitted, therefore, that our regulatory policy should be such as to afford equality of competitive opportunity for all types of transport agencies. When that condition shall be provided, it will devolve upon each type of carrier and upon each company to demonstrate its efficient service to the public in comparison with other carriers for the various classes of traffic and length of haul. In the meantime, in the face of a known surplus of transportation facilities, it is unfair to impair railroad investments through unequal regulation.



**“N**INETY per cent of the exhibits [at the Chicago World's Fair] mark advances in our civilization working without inspiration, compulsion, control, or even suggestion from the government itself. In fact, it is noteworthy that the government has done very little to contribute to this century of progress, while, on the other hand, much has been prevented, much has been thwarted, much has been hindered by the heavy, cold, clammy hand of bureaucracy.”

NEW YORK TIMES,  
October 25, 1933.





*From a painting by Henry Reuter Dahl*

*Brown Bros.*

## Man's Conquest of Power

By RICHARD LORD

**W**HENCE comes the hum of human toil  
That spells unwasted days?  
What citadels of trade are these  
That line frequented ways?  
What city of up-built plans  
Thus rears its strength in pride?  
It is the port of treasure ships  
That fight the racing tide!

**T**HE might of man is manifest  
In current, gas, and steam;  
The glistening minarets of trade  
Are symbols of a dream—  
To make men masters of the tides,  
The wires, rails, and wind,  
And gird the hemispheres to serve  
The good of human-kind.





## Are Public Utility Holding Companies Obsolete?

The author believes there is still a field for such companies but tells what he thinks they must do to save themselves from the scrap heap.

By M. H. WATERMAN

**I**N current discussions of holding companies and their position in the utility field there is much confusion and contradiction. There seems to be a lack of discrimination between the good, bad, and indifferent holding companies and a failure to recognize that in any field of enterprise or in any group of individuals there is bound to be a mixture of good and bad.

In the utility industry, colored as it is at present by a critical light of publicity, there is a great tendency for the worthless and inefficient to stand out as typical. This is not so true in other instances where the bad are not quite so obnoxiously prominent as have been the Insull companies, the American Commonwealth flyer, and the Tri-Utilities fiasco.

It is not that people have lost more money in utilities than in other investments; it is that more investors have lost more money in holding com-

panies in such a short time that has focused attention on their parent-sub-sidiary relationships.

Now from almost every quarter comes the query: Is not the only good holding company a dead holding company?

**A** HISTORICAL survey of that part of the utility industry relating to the gas and electric business shows it to have recently passed through a peculiar era—one which was characterized by physical coördination and corporate combination. Statistics show that, whereas there were 6,355 electric companies in 1922, there were only 2,486 in 1929. Similarly, for gas utilities there were 945 manufacturing companies in 1921 and only 754 in 1929. In both instances the decades prior to 1920 were characterized by increases in the number of establishments, indicating that the industry grew by units. During the '20's the

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industry continued to grow as measured in terms of investment, output, and revenues, but the business was done by fewer and fewer units of ever-increasing size. By 1930 the utilities were operating with larger and more coördinated physical systems which were, for the most part, both efficient and self-sufficient.

An accompanying movement to these consolidations during the '20's was the rapid development of holding companies. First there were holding companies designed to effect and facilitate the physical consolidations. In 1924 the Federal Trade Commission reported to have found approximately 75 per cent of the country's electrical business under holding company control. Then, after 1925 there began the great spasm of holding company development which so effectively pyramided control and consolidated existing holding company systems. This phase of development continued until the chilling events of 1929 and 1930.

**T**HE arguments pro and con as to the value of, and necessity for, the holding companies' participation in these physical consolidations may be disregarded and the nature of the services they had rendered to subsidiaries during previous decades may be passed over, in view of the fact that the utility industry was different in 1930 than it was in 1920. It was so different that it did not look like the same business. The pioneering stages in manufacture, generation, and distribution were completed, and, although technical progress was not halted, it was evident that future changes would be slower and would be keyed to the existence of large,

established systems. Legally and economically, the status of the industry was so settled that pioneering risks and profits were eliminated, and in all respects the operating end of the industry had graduated into the mature class of "seasoned businesses."

It is in the face of this new order of things the holding company and its connections with operating utilities must be judged.

In view of the rapid evolution in the industry since the advent of the holding company form of organization, it is to be expected that obsolescence should creep into holding company management of operating companies. Managerial obsolescence was just as inevitable and just as effective as the technical obsolescence which impaired the value of 30-cycle generating equipment when 60-cycle current came into universal use.

In the process of development, functions once performed by parent companies for their subsidiaries became needless and new ones were demanded. The holding company that did not keep pace with these changes is now obsolete. When such is the case, the solution lies in a treatment similar to that accorded obsolete physical equipment; namely, the scrap heap or a complete overhauling and readaptation.

**B**EFORE prescribing treatment for holding companies it is necessary to have a complete appraisal of parent-subsidiary relationships to see which should be scrapped and which, if any, should be salvaged and made ready for new functions. Turning to the literature of the '20's, various enumerations of the alleged advantages

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of the public utility holding company are found. They can usually be classified into four groups: management, finance, construction, and public relations. In practice the parent companies were accustomed

1. To aid their subsidiaries by giving management and supervisory service that the subsidiaries could not by themselves afford.

2. To advance funds to or sell the securities of constituents and thus furnish cheaper capital.

3. To plan and supervise construction using the specialized technicians of the holding company to assure better and cheaper construction than was available to isolated units.

4. To afford legal and economic advice and service to subsidiaries in rate cases and other public contacts.

**I**N addition to these services the holding companies were often, of course, the prime movers in system building and consolidation.

In every one of the above-listed instances the very activities of the holding companies, if conscientiously pursued, tended to eliminate the need for their services. Particularly is it true that as parent companies engineered consolidations to the end of creating large, coördinated, and efficient operating companies, so they created units that could be self-sufficient in matters of management, finance, con-

struction, and public relations. This self-sufficiency was further enhanced by the fact that, as the utility industry "seasoned," the technical, legal, and economic problems lost much of their vital importance, at least as far as their immediate and narrow managerial aspects were concerned.

It must be admitted that the entire utility industry is not even yet so organized that each operating unit is as efficient physically and managerially as might be desired. But, at least in part, this condition is the fault of misdirected holding company activities which resulted in the building of systems that could not be coördinated or consolidated and which perpetuated the need for holding company managerial and supervisory services under most unfavorable conditions.

**W**HEN the uneconomic holding company system was financed, as many were, like an optimistic real estate promotion, the result was a burdensome overcapitalization. This situation, particularly when aggravated by excessive fixed charges, led to concentration of holding company attention on the necessity for cash income to pay returns on overcapitalized structures. In self-defense the management resorted to manipulation and financial maneuvering instead of tend-



**I**N the process of development, functions once performed by parent companies for their subsidiaries became needless and new ones were demanded. The holding company that did not keep pace with these changes is now obsolete. When such is the case, the solution lies in a treatment similar to that accorded obsolete physical equipment; namely, the scrap heap or a complete overhauling and re-adaptation."

## PUBLIC UTILITIES FORTNIGHTLY

ing to the business of utility operating.

These considerations lead us to a temporary conclusion that public utility holding companies were economically self-destructive. The good ones were so managed that the parental guidance afforded during the adolescent period in the life of subsidiary companies fostered and encouraged development to the point of self-sufficient maturity.

It was truly an act in the public interest when a holding company "brought up" its operating companies in such a manner that they could manage themselves, and developed them to the point where they were large enough to handle their own construction, financing, and public relations problems in an efficient manner. But this bringing-up process, logical and reasonable though it was, made it possible for the subsidiary companies to cut the parental apron strings and take care of themselves. On the other hand, the poorly managed holding companies built up structures that crumpled on their weak economic foundations and one by one these are dropping off or are attempting to reorganize. It may be concluded, therefore, that holding companies operating under the managerial theories of the '20's worked themselves out of a useful place in the industry and that their functions, performed or misperformed, are now generally obsolete.

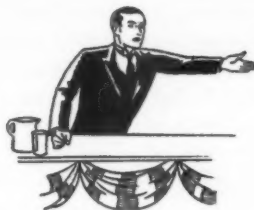
**I**F the above-stated conclusion is reasonable, is there any place left for the public utility holding company? The answer to this query is: "Yes, providing . . ."—providing the functions of the holding company are revamped to recognize the new condi-

tions in the industry and to perform new services which the utilities now need and can best secure through a proper parent company association.

In the determination of the new scope of holding company activities there must be recognition of the desirable features of subsidiary independence and self-sufficiency in operation and management.

This calls for the elimination of all holding company supervisory and management services, as well as the accompanying "fees," except in such cases where subsidiaries may be yet in the adolescent stage or in such condition as to make their maturity and independence impossible. The former condition may be cured by time, but if the latter prevails, every effort should be made to eliminate it by severing the connection between the parent company and the misfit offspring. Sale of the offending unit or its exchange for a more congenial property is suggested as a workable solution that has been proven in use. If these conditions are fulfilled, utility operating companies should be then in the hands of capable management and in position to meet their own local problems effectively.

**U**NDER the above arrangement the holding company would stand as the controlling security holder of a number of operating systems without other than a corporate relationship with those systems. There would be representatives of the holding company management on the subsidiary companies' boards of directors, and, as in any corporate relationship, the holding company as majority or sole voting stockholder would then control



### The Holding Company an Ideal Medium of Policy Control

**"T**HE public character of the industry is so firmly established that no holding company or other legal device which tends to separate control from investment can be tolerated unless the public responsibility is recognized throughout the whole system. On the other hand, the holding company is an ideal medium for the exercise of policy control which is made to include not only sound profit motives in the interests of investors, but also adequate consideration of the public interest."

---

the policies of the subsidiary units.

In this power of corporate control lies a proper and the almost only worthwhile function which can be performed by the modern public utility holding company. No longer do operating utilities need parental guidance in everyday matters of business conduct, but they do need and can profit by the results of family counsel.

Within the holding company family, matters of general policy can be considered and the combined opinions of executives of varied experience capitalized upon. By this process programs of general procedure may be mapped out to be carried on by the operating companies under such control as could be exercised by the interlocking boards of directors.

That there would be value in this manner of continued association of otherwise independent units may be seen by a consideration of some of

the current problems of the industry.

**I**T is evident that public utilities are at present caught between the two-horned devil of increasing taxes and expenses and the deep blue sea of demands for reduced rates. The utilities, their investors, and even their customers, whether they know it or not, need protection from an approaching dilemma. A coördinated, well conceived, and efficiently directed protective program is needed. The holding company's instinct of self-preservation could well be used to inspire a defense that would be reasonable and perhaps effective.

In all matters of public relations the utilities have seemed to be sound asleep since they abandoned the propaganda spreading characterized by the activities of the National Electric Light Association.

The abandonment of the National

## PUBLIC UTILITIES FORTNIGHTLY

Electric Light Association is to be praised, but the public relations activities of public utilities remain an important part of company policy. The development of a reasonable and educational policy in this connection is a job well suited to a holding company system operating under one preconceived policy.

Both in matters of rates and public relations the problems are more effectively approached by individual systems than by associations, because some holding companies can stand the light of truth and tell a convincing story while others cannot. Association activity must be tuned to the lowest pitch or run the risk of being labeled "propaganda" in the rankest sense of the word.

These examples are suggestive, not inclusive. The properly constructed holding company system would render other and similar services under the theory that, as the controlling stockholder, the parent company is in the position of a trustee charged with managing its holdings to the best interests of all concerned, investors and public alike.

**T**HERE are further possibilities for service in a treatment of the holding company as a clearing house, financial or technical.

As compared with other industries, a minimum of technical and business research has been done by gas and electric utilities. Most of the technical research has been left to the equipment companies, whose object, reasonably enough, has been to create new equipment that would make its own market by rendering obsolete that already in use. Comprehensive eco-

nomic or business research has been noted for its absence, except for association studies in rate research which have been valuable but not pointed at individual system problems. The holding company offers a medium for handling this important phase of an industry whose economic pains are acute and whose technique is still in prospect of change. Again this function is one to be assumed as a part of a controlling stockholder's interest in the continuance of value in his, the holding company's, investment.

**I**T may continue to be true that the special attention of technicians not available on operating staffs may occasionally be demanded even by large operating companies. Then the holding company may send to and put on the payroll of the operating company one of its "traveling advisers," an engineer, an accountant, a lawyer, or publicity man. Thoroughly versed in the company's policies and backed by wide experience, such technicians may well render better service than would be available elsewhere. Even so there is no excuse for charging the operating company more than their salaries and expenses, because the holding company will derive benefit from the greater security and enhanced value of its common stock investment—even as you or I, as sole owners of a corporation's stock, would profit by recommending the employment of a skilled manager or technician.

**A**s a financial clearing house the public utility holding company has possibilities in inverse proportion to the financial strength of its subsidiaries.

As the operating units grow and if



## PUBLIC UTILITIES FORTNIGHTLY

their development is sound, they will become more and more self-sufficient financially as well as otherwise. However, financial strength is so relative a matter that it may doubtless be said that any operating subsidiary, no matter how strong financially, may occasionally use the aid of a parent company treasury or financial connections. Also there is the possibility that the existence of a holding company financial clearing house for loans may eliminate the need for superfluous financial strength and wasted operating capital in the hands of operating companies.

Complete financial independence is sometimes costly and wasteful, and while banks may be relied upon for short-term loans of self-liquidating character, the demands for utility funds are seldom short-term and self-liquidating in the commercial sense. Therefore, parent advances to subsidiaries, even large ones, may help solve the pressing problems of large permanent capital investment which are characteristic of public utilities.

It is evident that such services as can be rendered by holding companies to the up-to-date operating utilities are all of such general character as to be quite intangible. Intangibility is not necessarily synonymous with uselessness; in fact, in the utility situation of today it is that most intangible of qualities that is so needed; namely, leadership with a pronounced social flavor.

**T**HE public character of the industry is so firmly established that no holding company or other legal device which tends to separate control from investment can be tolerated un-

less the public responsibility is recognized throughout the whole system. On the other hand, the holding company is an ideal medium for the exercise of policy control which is made to include not only sound profit motives in the interests of investors, but also adequate consideration of the public interest.

**A**NOTHER absolute prerequisite of successful and satisfactory holding company control, which cannot here be elaborated upon, is the unquestioned economic and financial strength of the holding company system and the parent corporation. To achieve this end new economic and financial standards of holding company system building are absolutely necessary in many instances.

Without strength the best laid plans of socially minded executives would be ineffective just as selfish management empowered with financial strength would be in vain.

It may be concluded that, in spite of suspicions and allegations to the contrary, public utility holding companies need not be obsolete. They have only to set their houses in order physically and financially, to recognize the nature and scope of their currently necessary functions, and to provide themselves with an ideal of management broad enough to consider not only the welfare of investors and the industry but also of consumers present and future. Only these things to be done does not imply that the rehabilitation of holding companies would be an easy task; quite the contrary.

But some such action is essential if these companies are to survive.

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# Remarkable Remarks

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*"There never was in the world two opinions alike."*

—MONTAIGNE

FRANKLIN D. ROOSEVELT  
*President of the United States.*

"Ninety per cent of complaints come from misconception."

CLARK McADAMS  
*Editor, St. Louis Post Dispatch.*

"Millions for public ownership, but not one cent for tribute to Wall Street."

J. F. McLAUGHLIN  
*President, Puget Sound Light and Power Company.*

"All this agitation of the power question keeps folks' minds off the all-important tax question!"

GIFFORD PINCHOT  
*Governor of Pennsylvania.*

"The average man's most serious cause of complaint against the public utilities is their excessive rates."

ALFRED E. SMITH  
*Former Governor of New York.*

"Ninety per cent of the Century of Progress exhibits mark advances in our civilization due entirely to individuals."

DAVID E. LILIENTHAL  
*General Counsel, Tennessee Valley Authority.*

"It is generally recognized that regulation by state commissions has not been entirely adequate to protect the public interest."

DONALD R. RICHBERG  
*General Counsel, N.R.A.*

"It has been amply demonstrated that the individualism of a pioneer people cannot be preserved in a modern industrialized state."

GLENN FRANK  
*President, University of Wisconsin.*

"It is the business of statesmanship to devise ways and means of making the periods of prosperity carry part of the load of the periods of depression."

PROFESSOR R. G. TUGWELL  
*Assistant Secretary of Agriculture.*

"Its (Tennessee Valley) success can depopulate cities, destroy a thousand entrenched privileges, invalidate a whole tradition of single-hearted self-interest."

ALEX DOW  
*President, Detroit Edison Company.*

"We are going to drill it into our customers until they understand it—that indirect taxation of themselves through the lighting companies is in most cases a departure from mental honesty by the taxing powers."

# What Others Think

## Alice in Wonderland

LITTLE Alice was quite puzzled at the strange way everybody was behaving at the Trial of the Knave of Hearts. But then everything had been so funny and backwards since she had found herself in Wonderland that she was becoming accustomed to it.

"Bring in the prisoner!" ordered the King. The Knave came forth looking very forlorn.

"Read the charge, Senator," the King commanded.

The bespectacled giant toad arose and puffed himself up until Alice thought he would burst. Then he began to speak, and at the same time waved very violently a large American flag which he always carried in his hand.

"He has been guilty of robbing the people," said the toad, "by charging excessive rates for electric service. He is a private utility operator and that alone should be enough to convict him." Here the toad paused as if waiting for applause, but everyone in the court was busy writing letters to the *New York Times*, so he continued. "He has had the audacity to compete with our great and glorious municipal plants and furthermore—"

"That's enough," snapped the King's Chief Professor. "Off with his head!"

"Just a minute," interrupted the King, "let me do the sentencing."

"Oh, but you musn't sentence the prisoner until *after* the trial," cried Alice.

"Silence!" frowned the King. "In this court we *always* sentence the prisoner *first* and then have the trial. Now I will proceed to sentence the prisoner."

"Off with his head!" snapped the Professor.

"Exactly," agreed the King, "I sentence you, Knave, to economic death. We will build new plants of our own

to take away your business and confiscate your property by special taxation and other legal persecutions until you no longer exist."

"Where is my Federal Trade Commission?" the King cried.

A long lean man dressed like a story-book detective came forth.

"You investigate this robber very carefully and tell the people everything that is *wrong* about him."

"Shouldn't he tell the people anything *good* about him?" asked Alice.

"Silence!" ordered the King. "This is an investigation not a whitewashing job. You have your orders. Now where is my Federal Power Commission?"

A little man with a very big head stepped forward.

"Cut the prisoner down all you can," commanded the King. "Prune his valuation. Pinch his operations. Beat his holding companies."

"Off with his head," suggested the Professor hopefully.

"Investigate his distribution costs," continued the King, "and show the people just how this Knave has been robbing them."

The little man with a big head scampered away bucketty-bucketty to find an Engineer so that he could begin his work at once.

"Now, to complete this business!" exclaimed the King. "Where are my Federal Power Projects?"

FOUR or five strange men came forth. One was dressed like a cowboy. Another like a Tennessee mountaineer. Another like a fisherman. Alice couldn't quite see the others, but thought it very strange that they all had on flat-board hats like the college professors wear on graduation day at home.

"Build me some power plants just like

## PUBLIC UTILITIES FORTNIGHTLY

the ones this Knave has. Take his business away from him," commanded the King.

At this the Projects all began to chatter among themselves. Alice couldn't hear everything, but she caught such words as "subsidy," "confiscation," "referendum." Finally they all stopped, and one of them addressed the King.

"We will have to have money."

"That's all right," agreed the King, "just get it out of the Treasury. Where is my Lord of the Exchequer?"

Somebody pushed the Lord of the Exchequer into view. He was in a very serious mood.

"Give these fellows all the money they want," ordered the King.

"But, Your Majesty!—"

"Silence!" ordered the King. "Do as I say."

"But—I—think I would like to resign," ventured the Lord, meekly.

"You can't resign," said the King, "I won't let you resign. I can't get along without my Exchequer."

"Let us hear the evidence in this case. Who is the official witness?" asked the King.

All eyes turned to a large stork that was sleeping soundly on a huge adding machine. Around his neck hung a sign, "Bureau of Census."

"Wake him up, somebody," commanded the King.

Alice gave the stork a poke. He got up drowsily and asked, "Is it time to make my report?"

"What report?" questioned the King.

"My quinquennial report," replied the stork with an injured air, "you know—the one I make about every five years on electric rates."

"Of course, fool!" exclaimed the King, "that is what we want to hear now. Tell us how the Knave has been robbing the people with exorbitant electric rates. Tell us how our public plants have been the sole champions of the masses."

THE stork adjusted a huge pair of eyeglasses and opened an exceed-

ingly large book. Everybody in the court promptly went to sleep except Alice and the King. Alice thought it very rude. The stork began in a sleepy voice.

"There were 1,627 private plants and 1,802 municipal plants in the United States in 1932," he droned.

"Skip that part," said the King. "What about rates?"

"All the municipal plants in the United States in 1932 charged an average of 3.1 cents per kilowatt hour for all power sold by them," the stork resumed. "Private companies charged an average of 2.7 cents per kilowatt hour during the same period."

"You see," interrupted the King, beaming on Alice, "you see how our people have been robbed?"

"By whom, the municipal plants?" asked Alice.

"No," cried the King furiously, "by the private plants."

"But the stork says the public plants had higher rates," observed Alice.

"That proves the stork is wrong," said the King.

"Oh! I see," Alice remarked, but she really didn't see at all. She was very puzzled.

"Tell us how the Knave has kept his electric rates at war-time peak level, while the price of every thing else has come down," suggested the King.

The stork coughed and continued wearily:

"Since 1927—"

"Go back further than that," said the King.

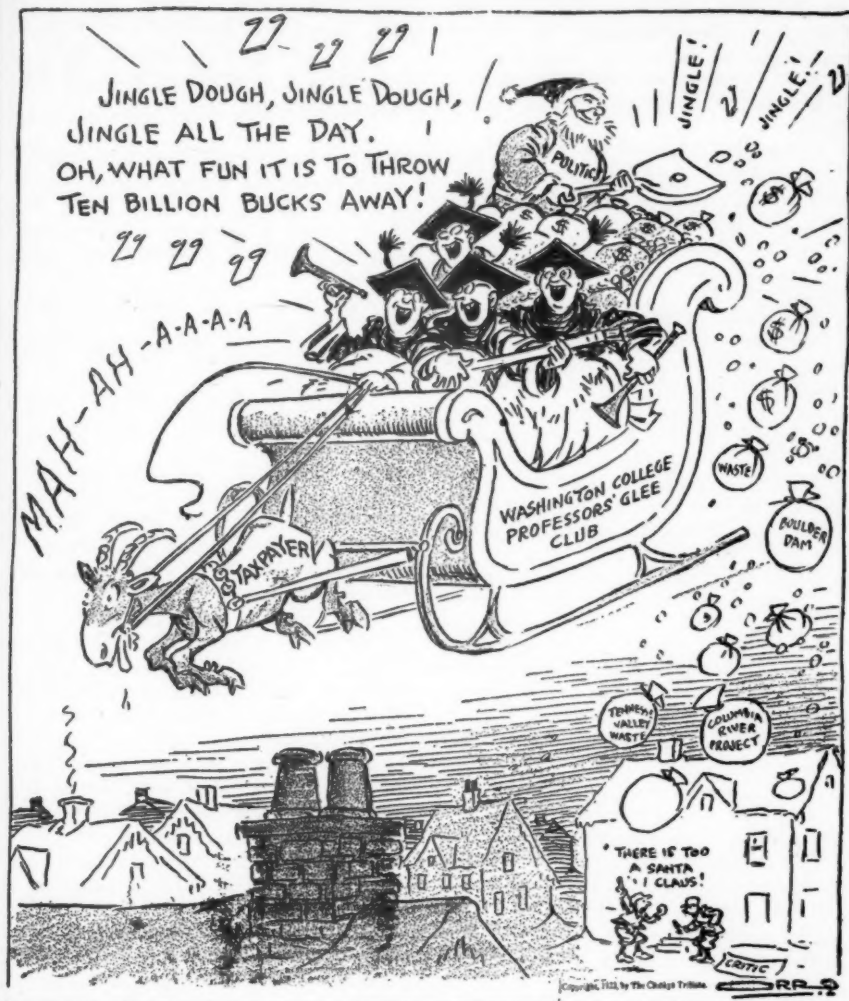
"I can't—that is the date of my last report," replied the stork suddenly becoming very indignant. "If you want further data I refer you to my 1927 report No. —."

"Oh, skip that," said the King. "What about 1927?"

"Since 1927," the stork continued, "rates of private utilities have been reduced 19 per cent. During the same period, municipal plant rates were reduced 14.5 per cent."

"You see," interrupted the King tri-

# PUBLIC UTILITIES FORTNIGHTLY



Chicago Daily Tribune

## A CHRISTMAS CAROL

umphantly, "I told you so. This shows clearly that commission regulation has been a failure!"

At this some of the sleepy little fellows woke up just enough to mumble an echo in unison, "Commission regulation has been a failure." Then they went back

to sleep. Alice thought it the strangest trial she had ever witnessed.

"WHAT about the farmer—the backbone of the country? Tell how the Knave has robbed the farmer," prodded the King. At the mention of

## PUBLIC UTILITIES FORTNIGHTLY

the word "farmer," the toad that the King had called "Senator" jumped up and began to dance and wave his flag until the King interposed and ordered: "Sit down!" The stork picked up his story.

"Municipal plants," he said, "have developed very little farm service. The vast amount of rural electrification has been pursued and carried on by private plants."

"Skip that part," said the King, "stick to the rates!"

The Census Bureau stork continued, "Private plants charged for farm service in 1932 on an average of 2.8 cents per kilowatt hour. Municipal plants charged for the same service on an average of 5.6 cents per kilowatt hour!"

"Oh, you robber," cried the King, glaring at the Knave. "This is more than I can bear. How could you rob my poor farmers so?"

This was also more than Alice could bear.

"I don't think he has robbed your farmers half as much as the municipal plants have," she objected indignantly.

"Silence!" ordered the King. "That is (1) because you don't know how to reason, (2) because you are a paid propagandist, and (3) because I do not care to listen to you."

The Knave was in tears by this time. He addressed the King:

"Well, you see, your Majesty, I have to pay taxes."

"How much?" asked the King suddenly interested.

"Oh—on the average of 17 per cent of gross revenues."

"Not enough," commented the King, and turning to the Professor he said: "Remind me to increase those taxes at the next session."

"Municipal plant taxes, too?" asked Alice.

"Don't be stupid," said the King, "municipal plants don't have to pay taxes. *Anybody* knows that."

"Well," said the Knave, "my operating expenses have been increased be-

cause of the NRA, while the municipal plants are exempt from—"

"You see!" cried the King in delight as he arose. "He admits it—even the gouging of labor."

"**A**RE there any more witnesses?" asked the King.

"One more, your Majesty," said the Senator toad pointing to a long worm on a high stool all stooped over a pile of ledgers.

"Who is he—the Book Worm?" asked the King.

"No," answered the Senator, "he is the Statistician."

"Well, what does he have to say. Let's get it over with," said the King impatiently.

The worm looked up from his books and said weakly, "Just this much. On November 1, 1933, there was an all-time record of private utility bond defaults resulting chiefly from high taxes and reduced revenues."

"How much?" asked the King.

"Nearly a billion—\$906,217,150 to be exact."

"Fine! Fine!" cried the King rubbing his hands, "it serves the robber of the people right."

"Just *who* is it that you say is being robbed?" asked Alice, thinking of the unfortunate bondholders. But nobody paid any attention to her.

"Gentlemen, have you agreed upon a verdict?" cried the King turning to a panel of Citizens still sleeping soundly. The Senator shook the foreman and repeated the question.

"Yes," said the foreman.

"What is your verdict?" asked the King.

"I can't think of it just now. I know that we did agree upon a verdict but I've forgotten just what it was," said the foreman apologetically.

"Oh, that's all right," said the King as he started to play with a stack of silver and gold dollars. "It really doesn't matter anyhow."

"Off with his head!" snapped the



## PUBLIC UTILITIES FORTNIGHTLY

Professor. The King nodded and declared the court adjourned.

"Oh—you are all just a pack of playing cards!" cried Alice angrily.

"Perhaps," said the Professor as he hurried off in his blue roadster to keep

an appointment, "but you'll have to admit it's a New Deal."

—JOHN TRACY FLEMING.

QUINQUENNIAL REPORT OF THE BUREAU OF  
CENSUS ON ELECTRICAL INDUSTRIES FOR 1932.  
Released, Washington, D. C., Dec. 9, 1933.

### Is Transportation Stabilization in Sight?

IT is only a routine communication—this "Service Letter No. 155" sent out December 1st by the American Transit Association whose members have been standing sadly at the wailing wall of Moribund Businesses for the last ten years, yet it contains several unpretentious sentences that stirred the imagination of this reviewer into immediate action. Here is the passage:

"The total number of revenue rail and bus passengers carried by 190 electric railways for the month of October, 1933, compared with October, 1932, is as follows:

"October 1933 .....	698,448,383
October 1932 .....	696,284,966
Increase .....	0.3%

"In October, 1933, for the first time since 1929, the industry's revenue passenger traffic in a current month exceeded that of the corresponding month in the preceding year."

CAN it be that, after all, the declining patronage of mass transportation carriers is approaching an irreducible minimum? Of course, even if this were true, there are still many difficult and discouraging problems for the transportation industry to work out. The inter-urban and interstate bus services must be regulated so as to eliminate unfair competition with steam railroads and interurban railway carriers. The urban bus must find its place and be coördinated with the operation of traction units. Traction systems still need weeding out, replacement, improvement. Doubtless still more operating companies must fall by the financial wayside before the Special Depression for Carriers has been completed. The most important question, however, is—Will it be completed? Have we finally come to the end of that long and steadily de-

scending curve of patronage for regular carriers?

It is not altogether impossible that such a thing could be. Regardless of how much the harassed steam railroad and electric railway executives cry out against wildcat bus operations, their real rival—the private automobile—has been and always will be beyond the reach of regulatory law. Unfair bus competition, of course, should be brought under regulation and it has doubtless aggravated very much the loss to the regular carriers caused by the family flivver. But the flivver remains the real reason for railway receiverships. Has the limit been reached—is the end in sight? Sooner or later private automobile usage must reach a saturation point. There are many reasons: the depression and its effect on the household pocketbook, and the increasing parking and traffic troubles. Surely there is somewhere in our scheme of things a lasting place for mass transportation. "Service Letter No. 155" brings news that may mean that a proper level may soon be reached. We hope so. Railway and bus operators can once more take heart in their work if they know that they have finally come to a firm plateau that will reach for a reasonable time into the future.

TURNING from local transportation to the broader field we find in Mr. Martin D. Stevers' latest book "Steel Trails: The Epic of the Railroads," a commendable effort to cram all the history, struggles, art, politics, and romance of the Iron Horse into one exceedingly readable volume of 371 pages. Naturally within such a small space, a

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Lincoln (Neb.) Evening State Journal

### UNCLE, THE OLD FIXER

reader familiar with the subject may miss a few more important phases (for example, the railroad operations in the Southeastern states might have received somewhat more attention), but he must confess at the close that Mr. Stevens has presented a very well-balanced picture.

As an example of the author's common sense this reviewer enjoyed the account (Chapter XIII) of the malodorous financial manipulations surrounding the Erie Railroad and other Eastern lines during the days of the Vanderbilts, Jay Gould, "Jubilee Jim" Fish, and "Uncle Dan'l" Drew. Here

## PUBLIC UTILITIES FORTNIGHTLY

was a great temptation for a writer either to rave or whitewash, depending on whether he was inclined to reform or conservatism. Mr. Stevers does neither. He apparently regards this dark page in railroad history as an unfortunate but transient stage in the development of a great industry. Here is a passage reflecting his unfailing good humor. There was a rate war between "Commodore" Vanderbilt's New York Central and Jay Gould's Erie for cattle shipments. Mr. Stevers writes:

"The Commodore cut the rate to \$100 a car; Gould dropped it to \$75. The Commodore dropped to \$50; Gould went down to \$25. Thereupon the Commodore waxed wrathful, cut the rate to \$1 a car, and waited to see how Gould could cut that.

"Apparently Gould couldn't; he put his rates back to normal. Now trainloads of steers were clattering east over the Central; not a 'moo' was to be heard on the Erie. The Commodore was gleeful over this hiding he had given Gould—until somebody whispered some bad news in his ear. Gould had bought all the live stock on the market west of Buffalo, and was happily reaping a fortune, through Vanderbilt's kindness, in hauling his stock to New York for him at \$1 a car! Thereupon the Commodore took a mighty oath that never again would he try to beat Jay Gould—an oath he kept until the day he died. (And his rate, of course, went back to \$125 a car.)"

**L**OOKING to future problems, Mr. Stevers sees no threat to the existence of the railroads in the freight field. There must be some changes, of course. Unsound and unfair competition must be curbed. Operating economies must be effected through consolidations and other methods but on the whole the author states:

"In the matter of cost, the railroad has no problem here. Given a sufficient tonnage, it can defy any other form of land transportation to carry goods as cheaply as it can. The problem is rather one of convenience, especially in handling L.C.L. merchandise shipments, and meeting the 'door-to-door' competition of trucks. Moreover, the normal load for a modern box car—the natural unit for carrying packaged merchandise—is 40,000 or 50,000 pounds, unless the merchandise is so bulky as to fill the car with less than this weight. This is a load for five large trucks; so obviously, unless the shipper is on a siding the truck

must enter the process, in getting the merchandise to and from the car. The question from the railroad's point then is: can matters be so arranged that it will pay to interpose the freight car in the shipping process, with two extra handlings, one to load and one to unload, instead of having the truck go through from shipper to consignee?"

**I**N the field of passenger traffic, however, the ultimate fate of the railroads is not so clear. Mr. Stevers points out certain improvements in construction and operation which the railroads can make to compete favorably in the matter of time and comfort even with the airplane. With rubber-cushioned, air-conditioned, roller-bearing, stream-lined equipment permitting sound sleep, who would not prefer an over-night journey by rail to five, six, or seven hours sitting up in a plane or bus? Thus we see New York's over-night range will be Nova Scotia, Chicago, Charleston, S. C., and Chattanooga, Tenn. Chicago's range will sweep in a circle through Omaha, New York, Winnipeg, and New Orleans. For daylight runs, the author concedes a considerable portion of the future traffic to the airplane and abandons the short run to busses or some "fill-in" trains. Yet, although this set-up is almost immediately possible from the present advancement in the railroad art, practical consideration obstructs the way. Mr. Stevers concludes:

"Such service the railroads are powerless to provide, in any comprehensive way, much as they might want to, at the present time—for the simple reason that they must get permission from some governmental agency for anything and everything they want to do, and, naturally their competitors try, through every political channel available, to see that they are denied the permission needed. So the destiny of the railroads, the passenger service offered the nation in the future, are matters which lie, for their ultimate solutions, in the hands of the politicians, and behind the politicians, of the public. These pages have shown what can be done, as a matter of engineering and economics. It remains for us, the public, to say, through the people we elect to office, what shall be done."

**I**N the field of bus operation Mr. Ford K. Edwards, instructor in Transport-

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tation in the University of Southern California, has written a book of about the same size as Mr. Stever's book on railroads. Mr. Edwards deals with the organization, operation, management, and regulation of bus carriers. He stays within a rather narrow territory avoiding any excursions into the realm of speculation as to the future of the industry or transportation. In fact, Mr. Edwards' work appears to be a handbook for those who are engaged or interested in the organization and operation of motor truck and passenger bus companies. As such it should be a very valuable reference book on a subject not overblessed with text literature. The author goes to great pains to cover such details as the training of drivers, the keeping of accounts, and the management of traffic. His treatment of rate structures is particularly able. In the field of regulation and taxation (the final four chapters), the author appears at this point to venture a little beyond his depth.

LET us hope that the new order is at hand in at least one of our major public services. When the railroads will have been improved and their waste eliminated, when the busses and taxicabs have been curbed and coordinated, when the street car has finally found its proper place, and when the saturation of private car competition has removed the cloud of doubt from all transportation business, then can we roll down our sleeves and sigh, "That's that!" Then shall we have, for a few years at least, a breathing spell in one group of industries—a stabilized transportation service. Would that all our other businesses could attain such a state.

—F. X. W.

SERVICE LETTER No. 155. *American Transit Association*. December 1, 1933.

STEEL TRAILS. *The Epic of the Railroads*. By Martin D. Stevers. New York: Minton, Balch & Co. \$3.75.

PRINCIPLES OF MOTOR TRANSPORTATION. By Ford K. Edwards. New York: McGraw-Hill Book Co., Inc., 1933. \$4.00.

## Debunking the Art of Buncombe

IT has been some years since the genial but cynical G. S. Viereck, former intelligence official of Imperial Germany, defined "propaganda" as "the argument of the opposition." Professor Lumley goes in for a much more elaborate definition. "Propaganda," he says, "is promotion which is veiled in one way or another as to (1) origin or sources, (2) the motives involved, (3) the methods employed, (4) the content spread, and (5) the results accruing to the victims—any one, any two, any three, any four, or all five."

And here, all his life, this reviewer has thought of advertising as a mild form of propaganda. Now it would appear, according to Professor Lumley, that that sort of thing is exactly what is *not* propaganda. Advertising is labeled and it is only the lack of a label or, at least, the lack of a true

label, that makes propaganda. It is the "veil" that makes propaganda. The honest butcher who advertises that his hams are good and that we ought to buy them and eat them is not a propagandist. Professor Lumley strays somewhat from the classical definition of the word as recorded in Webster's Dictionary but undoubtedly modern general use of the term has attached to it much more implication than appears in the dictionary.

On the other hand, the professor's definition, literally applied, covers a broad territory. It is hard, indeed, to imagine any advice, suggestion, or admonition delivered every day by businessmen, lawyers, clergymen, politicians, editors, or even by mothers to their children that might not offend in some respect the "veiling" limitations set forth in Professor Lumley's five conditions. However, he is prepared

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to stand his ground. He illustrates propaganda from the earliest historical time of mankind in the field of industry, politics, war patriotism, race, education, and religion. He has collected a wealth of information on the subject often from the most obscure nooks and crannies. This material is carefully documented and digested.

He devotes considerable attention to utility propaganda. The alleged employment of a president of the General Federation of Women's Clubs by the National Electric Light Association to deliver a series of propaganda articles was singled out as an instance of "veiled" source. She was employed, we are told, because her clubs considered her "a woman leader, interested in the welfare of women and working for the purpose of the organization."

**P**ROBABLY the most interesting feature in this interesting book about propaganda is the author's opinion of it. He is against it part and parcel. There is no such thing as good propaganda or justifiable propaganda. It is a positive menace. It "makes the social order spooky and this makes society a vast, many-roomed, haunted house." It is "a perpetual disturber of the peace"—an insidious "poison" that awakens passion, confuses issues, and "keeps people battling in a fog."

Just the same, without attempting to justify morally, the doctrine of equivo-

cation, this reviewer wonders just how many Liberty Bonds would have been sold or how many soldiers voluntarily enlisted if every stark detail of truth and probable outcome had been told to the prospective purchasers and soldiers. Is there really no such thing as helpful propaganda?

**G**RANTED, however, that propaganda is either invariably a social evil or generally so, what remedy does Professor Lumley offer? None! He tells us that the average man's only hope lies in learning to think straight. Viereck said pretty much the same thing when he pointed to common horse sense and a sense of humor as our greatest and perhaps our only protections against exploitation by the great waves of buncombe that constantly beat against our eyes and ears and ask admittance into our minds. Many will doubt that the general run of mankind will ever attain such a level of protective sophistication. In any event, the professor does not depend on laws to enforce labels although apparently he believes that some would do no harm. He repeats that man's "cure for this pest and others too is, like the Kingdom of Heaven—within him."

—JOHN TRACY FLEMING.

THE PROPAGANDA MENACE. By Frederick E. Lumley. The Century Company. New York, 1933. Price \$4.00.

## The Kingdom of the Kilowatt

**"U**P to now," as Al Smith would say, there is little doubt but that lawyers have controlled the business of government. The judicial branch, of course, is manned fore and aft by the disciples of Blackstone. The legislative branch, both in Congress and in the state capitals are under the control, if not swamped, by a majority of members of the bar. Likewise, the executive or administrative branches, commencing with the White House down

to the division heads of the various cabinet departments and commissions have for the most part been in the hands of the lawyers.

The ascension to power of Franklin Roosevelt marked a departure in the filling of certain responsible posts in the administration—some of them purely unofficial, such as the little group of professors known as the Brain Trust. Is this only a transient development? Or does the modern com-



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plexity of society demand more and more professionally specialized supervision? Will the trend toward technicians instead of politicians extend to our other branches of the government? Is the cold-blooded logic of legal reasoning too inflexible for modern government?

Everyday economists and engineers tell us that the job of running a government is really more scientific than building a hydroelectric dam. On December 1st, the retiring president of the American Society of Mechanical Engineers even declared that social control should be immediately handed over to the technicians. Business men, we are told, have made a mess of business; lawyers and politicians have made a mess of government. Now we should let some trained minds tackle both jobs.

**W**ALTER Polakov, internationally famous engineer in his latest work, "The Power Age," believes that such transition of authority is imperative. The reason for this immediate requirement is the fact that civilized society has emerged from the "machine age" into the "power age." Because of the newly realized possibilities of power, production is no longer proportionately related to labor. It has become independent of labor. The modern laborer must have more skill, but he also has more leisure. As a result the problem of management has changed. It must see that the work, and consequently the "earned leisure" (as distinguished from outright unemployment), is socially distributed.

This sounds suspiciously as if Mr. Polakov had dragged "technocracy" out of the attic, where it was swept during the spring of 1933 to oblivion with cross-word puzzles, mah-jong sets, and Tom Thumb golf, and had brushed it off and presented it with a new label. But let us continue. The author does not plead for technical control of government as a better way of handling the latter. He demands it as the only way. He points out that the coming of electric power with all its mechan-

ical incidents has exploded our old economic dogmas. Adam Smith's supply and demand—the doctrine of economic competition—even constitutional liberties and rights of person and property are being swept aside by the unchained Prometheus of industrial power. Their adherents must give way or be crushed by economic annihilation. Political economy is a back number—even the learned professors in Washington these days trying to choose between self-regulated industrial cartels or general governmental regulation of industry, according to Mr. Polakov, might just as well be so many Shakespearean actors reciting Hamlet's soliloquy. The machine will dictate its own social planning. The wrench is the modern sceptre. The engineer is the King holding it. (The reviewer was almost tempted to say "the electric chair is his throne," but that would be carrying the analogy too far.)

Mr. Polakov says that our present paradox of plenty in the midst of human destitution results from our blind failure to harness human needs to the machine. Instead we have let the machines run wild and fire their products ceaselessly at our heads. Now how could all the leading minds in Europe and America be so stupid?

Mr. Polakov explains. In the machine age, which is now extinct, there was a general scarcity of consumable manufactured things. This scarcity acted as a constant spur to production. It absorbed all surpluses, and by the familiar economic circle between earning and purchasing power created new demands.

**T**HEN came the power age with technical improvements of production, so efficient that production forged ahead without the commensurate need of labor. Surpluses gained. Employment, earning power, and demand lost ground. Scarcity of things vanished, but the power age machine grinds on like the magic coffee grinder in the fairy tale that lies in the ocean continually pouring forth salt because the



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mystic word for stopping it has been forgotten.

What to do about it? Mr. Polakov is not content with merely a new deal. He wants a new deck. Economic reorganization must begin from scratch. We must recognize that technical advance is irresistible. Maintaining the old-fashioned margin of profits through price increases is a futile obstruction to technical advance. So we must do away with them. We must install "engineering statesmanship." Next the engineer statesmen must know what they are doing. They would go after each industry like a horde of medical internes at a charity patient. Production, consumption, labor, earnings—all would be charted. Temperatures would be taken and case histories carefully recorded and checked.

THE glaring weakness of Mr. Polakov's book is his labored distinction between the "machine age" and the "power age," a distinction which the reviewer believes exists more in the mind of Mr. Polakov than in factual history. However, it was necessary for Mr. Polakov to emphasize this distinction in order to predicate his next distinction about "profit margins." In the machine age, the spur to production was necessarily based, we are told, upon "exploitation and special privileges." Now that the power age is at hand and production has conquered scarcity and has poured over the line into the realm of a "plenty economy" there is no further need for the profit margin based upon exploitation and special privilege—which is Mr. Polakov's way of implying that the wages of capital will be restricted to its ample needs.

In the machine age the owner of the plant was entitled to all the profit he could develop regardless of how rich he might already be. Now he cannot roll up huge financial holdings. In other words, rugged individualism is out.

Both of these assumptions are open to question. Mr. Polakov says that the power age developed different *kinds* of machinery than the machine age, rather

than a mere difference in the *quantity* output. That may be true but the purpose was the same and the technological unemployment resulting was of no greater proportion than has happened during various periods of the nineteenth century and even back to the time of the introduction of the weaving loom. The chief difference between the two periods so carefully separated by the author appears to be a change from steam motivation to electric motivation of machinery for doing about the same thing. It is hard to believe that this should have all the important social and economic implications that Mr. Polakov ascribes to it.

As to the second proposition, history repeatedly belies the proposition that profit margin is an economic development incidental to periods when production is attempting to supply a "scarcity." There has been "exploitation" (to use Mr. Polakov's term) during periods of scarcity and surplus alike. In Russia, on the other hand, profit has been eliminated during a period of greatest scarcity.

The truth of the matter is that it is man who makes his economic laws and shapes his rules of government. Mr. Polakov's thesis that the power age machine will dictate the blueprint, or mankind will be destroyed, lacks recognition of this human element. Man is a most unpredictable animal. The machine may change his life and even suggest changes for his government, but there will be no kingdom of the kilowatt by mechanical fiat. Incidentally at the same meeting in which the engineering association's head demanded technical control of the government, one engineer argued for inflation as the only road to recovery, which shows that scientists can disagree as well as lawyers, and, as Dean Swift remarked, who can assure us of a cure, when the doctors disagree?

—F. X. W.

THE POWER AGE. By Walter N. Polakov.  
New York: Covici-Friede. 1933. 247  
pages. \$2.

# The March of Events

## U. S. May Rule Public Utility Holding Companies

**E**XTENSION of Federal regulation over public utility holding companies and public utility service companies will be included in the administration's legislative program for the coming session of Congress, according to a Washington dispatch to the New York *Herald Tribune*.

The Federal Power Commission and experts for the House Interstate Commerce Committee have been at work on the problem since the extra session of Congress last spring, and will have definite recommendations to make, it was said.

What was generally interpreted as the keynote of the administration's attitude toward the regulation of holding companies was struck recently in the Federal Power Commission's opinion in a Louisville case, in which it denied various items charged against the cost of a power project built under Federal license, the dispatch said.

Frank R. McNinch, chairman of the Federal Power Commission, outlined his views on holding company regulation in a statement to the New York *Herald Tribune*:

"In my opinion, holding companies, as they affect the operating companies which generate and distribute electric power to consumers, should be brought directly under strict regulatory jurisdiction. Their books should be kept in accordance with a prescribed and standard system of accounts and in harmony with the system prescribed for the operating companies. Holding company books, accounts, and records should be open to inspection and audit by regulatory authorities.

"Loans by the operating company upstream to the holding company or any of its subsidiary group should be forbidden. There should be supervision of intercorporate financial transactions, including advances or loans by the holding company or subsidiaries to the operating company.

"The element of profit from services rendered by the holding company or its subsidiary service company to a controlled operating company should be eliminated, and all such intercorporate service contracts should be required to be submitted to, and have the approval of, the regulatory authority before becoming effective. The present practice, though there are notable exceptions, is to take long-term service contracts from the controlled operating companies, giving the system service company the contract to build

power projects and render purchasing, engineering, accounting, legal, and managerial service for the operating company at an agreed percentage fee or other basis of profit.

"These intercorporate contracts are usually negotiated by men who are officers in both the operating company and the service company, or who, at least, hold offices in some company of the controlling group. This is nothing less than contracting with themselves about matters which vitally affect the cost and the operating expenses of a public utility. The public is entitled to have some independent and responsible scrutiny and control of such contracts.

"It would, I am sure, have a salutary and restraining effect if provision were made for full publicity of all such intercorporate contracts, financial transactions, and dealings.

"The Interstate Commerce Committee of the House of Representatives under the able and experienced leadership of Chairman Sam Rayburn has been making a thorough study, under the direction of Dr. Walter M. W. Splawn, special counsel, of public utility holding companies, including the power industry, and I understand the committee's report will be submitted to Congress, with recommendations for legislation, at the next session. This committee's report will doubtless be a most valuable contribution toward a solution of the holding company problems."

The New York *Herald Tribune* dispatch said in conjunction with this enlargement of Federal supervision the reorganization of the Federal public utility regulatory bodies will be considered. Under a broad plan discussed last spring, regulation over electrical utilities, radio, and telephone and telegraph companies would be vested in one Federal body, while control over all means of transportation, including railroads, interstate truck, and bus lines, shipping and pipe lines, would be vested in another Federal body.

## Utilities Ask that NRA Code Cover Entire Industry

**Q**UESTIONS as to whether municipal, state, and federally owned and operated utilities are to come under the NRA codes, now in drafting process, have arisen in Washington and are the subject of active negotiation between NRA officials and utility representatives.

The problem as it relates to the electric

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utilities is understood to have been one of the chief points of discussion in a conference on December 8th between President Roosevelt and Floyd Carlisle, president of the Niagara Hudson Power Company.

Results of the conference are undisclosed but the understanding is that at least some of the matters under consideration were not finally settled, and that another conference between executives of the electric light and power industry and NRA administrators would be held in Washington on December 13th.

Contention of the utility officials is that if the private organizations are to be subjected to code regulations which will increase costs, publicly owned and controlled companies should be subjected to like regulation. Otherwise, they will be in a favored position and there will be given an impetus to the drive for extension of public ownership.

Between 10 and 15 per cent of the power of the country is now furnished by public-owned companies, according to the *Wall Street Journal*, however, successful completion of the Tennessee Valley project, along with other Washington-sponsored measures to facilitate public ownership, would increase this percentage materially.

Despite this contention, Donald Richberg, counsel for NRA, is understood to have made a ruling that government-owned and operated companies need not come under the code. This view is understood to be acceptable in high administration quarters, the *Wall Street Journal* said.

Some NRA officials state that it would be undesirable to bring government-owned utilities under a code where they would be regulated by authorities picked chiefly from officials of private companies. These officials express belief that a power and light code will be submitted shortly applying only to privately owned companies. However, other officials of NRA express the opinion that a code omitting governmental units will prove completely unacceptable to private interests.

George B. Cortelyou, president of the Edison Electric Institute, indicated the desires of the electric utilities group in an address to members of the Institute when they were convened in St. Louis recently.

Mr. Cortelyou called upon the Federal government not to "repudiate or shun its own 'blue eagle'" by fostering unfair competitive conditions between public and private utility service.

"The elimination of unfair competition and the prohibition of increase in plant capacity until existing power resources are fully utilized, have become basic and familiar provisions in the codes for other industries, and are of the essence of the declared policy of the National Recovery Act.

"We submit," Mr. Cortelyou said, "that any code now established ought fairly to recognize and require that this industry shall be ac-

corded and assured fair and nondiscriminatory treatment in this respect."

"Various codes of other industries provided that no additional and competing plants or facilities should be built until the productive capacities of existing plants and facilities have been fairly utilized to the end that duplication and waste and increased burdens in carrying charges and operating costs shall not avoidably be placed upon the public."

Should the utilities fail to submit and agree to a code voluntarily, the *Wall Street Journal* said, President Roosevelt would have power to impose a code upon them. However, any such procedure would call for detailed studies and procedure which would require months for completion. After the imposition of such a code extensive litigation almost certainly would ensue.

While questions at present center around the power and light code, the same problem affects the codes for natural gas, artificial gas, and water supply. The other two utility codes, telegraph and cables and telephone, are being delayed by problems within the respective industries.

The position of publicly owned companies does not bear quite as heavily in the question of the natural and artificial gas codes, officials in Washington state, but it is a potent factor in controversy. Water supply companies, approximately 85 per cent publicly owned, are only a minor portion of the problem, it was added.

Problems of competition are understood in Washington to be the cause of delay in promulgation of a code for the communications industry. Some high officials state privately that under the keenly competitive situation now existing, the companies cannot put into effect the labor conditions asked by NRA. This group believes that the industry will not submit a code until the communications committee of Secretary of Commerce Roper makes its recommendations to Congress this year, 1934.

## Plan Missouri Valley Authority

PRESIDENT Roosevelt was reported authoritatively as favoring the early creation of a Missouri river authority similar to the Tennessee Valley Authority, according to an Associated Press dispatch to the *Bismarck Tribune*.

Although it was said at the White House that the chief executive has not yet studied the matter thoroughly, he was said to feel that an investigation of the possibilities of such a move should be made. One question he feels should be studied, in view of the great expanse of the Missouri valley, is whether the project would be too large an enterprise to be embraced by a single authority.

Further, Roosevelt was said to be enter-

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taining a similar attitude toward the Arkansas river valley.

The president has not yet discussed his ideas with Senator Norris, leader of the fight for the creation of the Tennessee Valley Authority, but it was intimated he would do so later, the dispatch said.

Senator Norris announced recently he would introduce a bill in the next Congress to provide for the development of the Missouri valley in much the same manner as the Tennessee project.

### Governmental Decree Slashes Cuban Electric Rates

THE American-controlled Cuban Electric Company waited on December 6th for official publication of the governmental decree cutting its rates more than 40 per cent. The decree, under which, the company says, it will not attempt to operate, has been signed, but does not take effect until published in "The Official Journal." In the meantime, the government indicated that it was ready to step in and operate the plants the moment the company made any move to shut them down. It was learned by the New York *Herald Tribune* that the government, in such an eventuality, would refuse to sign any receipt for the properties.

An official of the company said he had not changed his previous attitude that the company would be unable to operate under such regulations as are contained in the decree, which the company considers confiscatory.

It was said that the company had asked for not more than a 20 per cent reduction in rates, while the Cuban government declared that it must reduce rates much more than 40 per cent.

It was learned that the company is trying to win a stay in enforcement of the rate-cut edict and is planning to enter the Cuban courts to fight out the case, which is arousing wide interest among American business interests in Cuba. If the government steps in and operates the plants, however, the company, it is understood, will ask American officials in Havana to have the government give a receipt and a guaranty against physical damage to property or loss of funds in hand.

A spokesman of the Cuban government said that the company should be able to operate with a profit even after a 40 per cent rate cut, and declared that its properties had been vastly overvalued. When the company was organized several years ago, the spokesman said, sums greatly in excess of real values were paid for properties acquired in the formation of the new concern.

In addition to the rate cuts, the Grau decree concerning the company orders the following: A moratorium on past-due bills of four months for private consumers and eight months for business firms; no dismissals of employees or laborers and no salary or wage reductions because of the rate cut; no claims to lie against either the company or the consumers because of acts resulting from a strike. The Secretary of the Interior is empowered to enforce the decree, and a penalty of \$1,000 is set for each infraction of the regulations, the penalty to be doubled in amount each time the infraction is repeated.



## Arizona

### City of Nogales May Buy Mexican Power

THE cities of Nogales, Arizona, and Nogales, Sonora, may join in an electrical handclasp across the international boundary, with the American municipality purchasing street lighting power from its Mexican neighbor.

Construction of an electric Diesel plant is now under way in Nogales, Sonora. For many years the Mexican neighbor purchased electrical energy from the Nogales Public Utilities Consolidated corporation, now in receivership, with an annual consumption of between 5,000,000 and 7,000,000 kilowatt hours,

but because of protests against high rates and poor service is now building its own plant, according to the Phoenix, Arizona, *Beacon*.

Officers of the new plant include Ignacio Soto, president of the Banco de Nogales, and José Elias, capitalist and brother of Francisco Elias, Mexican Minister of Agriculture.

Diesel equipment was purchased in Germany and is now on its way to Nogales via Vera Cruz.

The Phoenix, Arizona, *Beacon* stated that officials and citizens of the American border town have long protested against rate charges. The city owns its street lighting distribution system and definite plans are under way to hook up the system with the Sonora producing plant.



## Georgia

### Utility May Cut Municipal Rate

A RATE reduction for municipalities distributing electric power to their own citizens was in prospect following a conference between representatives of the municipalities and officials of the Georgia Power Company on December 9th.

It was announced that a tentative agreement calling for a reduction of between 10 and 12 per cent was made. There are 23 cities and towns in Georgia which buy current from the power company and operate their own distributing plant.

After hearing the demands made by the representatives of the municipalities, an official of the company offered a total reduction of \$50,000 on the approximate \$700,000 bill paid by the towns. The municipal representatives countered with a proposal that the cut be made and that in addition a further reduction of 5 per cent be granted those towns which pay their bills within ten days after they are submitted.

The chairman of the public service commission sat in on the meeting. He said that the commission had not demanded any action on the part of the power company but was "merely aiding the company and the towns to get together."

### Affirms Bell Rate Reduction Ordered by Commission

REFUSAL of Judge Underwood to issue an order restraining the Georgia Public Service Commission from putting into effect the 25 per cent rate reduction of the Southern Bell Telephone Company ordered effective on December 1st, automatically made the lower rate schedule effective on that date.

On December 11th, a 3-judge court, which includes Judge Underwood, was to hear the company's plea in equity that it is being denied rights guaranteed it under the Fourteenth Amendment.

The Georgia Public Service Commission on December 4th revoked the recently ordered 25 per cent rate reduction for all telephone companies in the state except the Southern Bell. The companies affected by the revoking order obtained a temporary order from the Federal court restraining the commission from putting the lower rates into effect.

The commission announced that it would immediately take up the case of the independent companies and would begin hearings on December 14th when all small independent telephone companies again will be called to show reason why their rates should not be reduced.

At one time Georgia was facing 'phoneless days when Governor Eugene Talmadge threatened to call a telephone "strike" if the reduction was enjoined by a court. Governor Talmadge had said, "I am tired of answering telephones. Besides, I have investigated the contingent fund out of which my telephone bills are paid and the fund will not stand any further charge of \$10.50 per month for a telephone."

"The rate for a business telephone ought to be what it was in 1918—\$5 a month. Salaries and wages were a lot higher then and people could afford to pay more for their telephones. Other commodities have come down. Suits of clothes cost \$75 and \$80 in 1918. Try and find a \$75 suit now."

When called on the telephone to inquire if he had any statement to make, Governor Talmadge said, "I'm talking to you on a cheap telephone. On the decision I have no comment to make. But the 'phone I'm talking on cost \$10.50 yesterday and only \$7.65 today."

## Kentucky

### Utility Seeks TVA Aid for Dam

HEADED by United States Senator Alvin W. Barkley, a delegation of about twenty-five persons from Kentucky including Willis G. Waldo, president of the Southern Industries and Utilities Incorporated, recently called on the Tennessee Valley Authority in Knoxville and presented a proposition that their private corporation be allowed to build at Paducah, Kentucky, the Aurora Dam, and that the \$14,000,000 allotted by Congress for construction of seven navigation dams on the Tennessee river be turned over to the pri-

vate company, to be used, with \$7,000,000 to be furnished by the company for the private company's project of hydroelectric development.

The Kentuckians are anxious to have the private corporation construct the dam, they declared in the interview with TVA authorities, because the company can begin at once. Provisions would be made to allow the TVA to take over the project any time after it is finished, and electric rates would be fixed by the TVA so that no profit would be made on the government funds.

Mr. Waldo said the company originally



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planned to produce 120,000 kilowatts of power at the Aurora Dam but would agree to cut it to 80,000 if the TVA desired. The Authority

agreed to consider the proposition, according to the *Boston Evening Transcript* of December 2nd.



## Maine

### Commissioner Greenlaw Retired

THE term of Commissioner Albert Greenlaw has expired, and it has been conceded that he will not be reappointed by the Democratic governor. General Greenlaw, who won his military title by long service, has served on the commission since 1910.

General Greenlaw enlisted as a private in the National Guard in 1899. He rose gradually to the rank of Brigadier General before his resignation in 1915 to enter active

service as Captain on the Mexican border. He returned to private life, only to enlist again six days after the United States entered the World War. He had active service in France and was several times cited for bravery. After the war he was again made Brigadier General in the National Guard. He was the first Department Commander of the American Legion in Maine, and is President of the Maine National Guard Association.

It was reported that his name is being mentioned as a candidate for governor in 1934.



## Massachusetts

### Lowell Abandons Gas Rate Case

IN view of a general decrease in receipts of the Lowell Gas Light Company during the past year, as well as an increase in operating costs, the city solicitor of Lowell has abandoned further work on the mayor's petition for a reduction in rates.

The solicitor's statement explaining his action follows:

"I have decided not to pursue further the mayor's petition for the reduction of rates charged by the Lowell Gas Light Company. I have discussed the matter with His Honor and my decision meets with his approval.

"The company's gross income for the past twelve months shows a large decrease. The expenses of the company have increased slightly and the expenses due to the signing of the NRA code will increase the company's expenses considerably during the next twelve months. The general increase in costs of doing business affecting the prices of materials and labor is bound to have an adverse effect upon the income of any public utility company. I am thoroughly satisfied from the figures of the company's income during the past eight or nine months that no decrease in rates is justified at this time."

### Foresee Milk a Public Utility

A STATEMENT that the milk business might wind up as a public utility and a proposal to increase the price paid producers by three quarters of a cent a quart were read into the record on December 7th at the Federal hearing in Boston on amendments to the greater Boston milk marketing agreement.

At the same time a New Hampshire producer made a plea that farmers be taken from "the sweat-shop class" with a statement that prior to the code becoming effective milk producers in that state were earning less than 20 cents an hour for their labor.

During the hearing it was indicated the marketing agreement might be changed to retain only a fixed minimum price to producers and eliminate a minimum price to be charged consumers. Speculation on this point was raised when the chairman interrogated each witness on the advisability and necessity of retaining the minimum to consumers.

The chairman informed the Associated Press after the hearing that the Agriculture Adjustment Administration was considering such a practice for the nation at large and that the same questions were being asked at each Federal hearing throughout the country.



## Missouri

### Gas Company License Revoked

THE corporation license of the Cities Service Gas Company was revoked November

27th, and the license of the Cities Service Oil Company was revoked November 24th, it has been revealed by the secretary of state of Missouri.



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The secretary of state said the licenses were revoked because of the failure of the companies to pay \$2,672.25 in fees which were due the state since the corporations increased their working capital in the state of Missouri, according to an Associated Press dispatch

in the St. Louis *Daily Globe-Democrat*.

Ouster proceedings against the companies, both of which are Delaware corporations, will be filed, the attorney general said, because the companies have continued to do business in Missouri after their licenses were revoked.



## Nebraska

### City Challenges Commission

THE power of the Nebraska State Railway Commission to require a certificate of convenience and necessity for the operation of competing common carriers, exercised by that body for the first time in its history in denying to the Publix Cars, a taxicab company, the right to operate in Omaha on the ground that its plan of operation brought it into competition with the street car company, was challenged by the city of Omaha in a case argued before the supreme court on December 7th. The street car company insisted that the commission should fix minimum fares in the face of a state law forbidding it to fix minimum rates for carriers and utilities. Its attorneys asked that the law be declared invalid.

The commission presented a divided front

on the question, its attorney arguing that it was not a matter for the court, while Commissioner Drake had a brief on file as a friend of the court urging that the law was invalid, because the constitutional provision granting the legislature power to make specific laws governing operation of the commission did not include nugatory legislation, since if it could take one power away, it could take all of them, according to the *Nebraska State Journal* of December 8th.

The court also heard arguments in the appeal of the city of Omaha from an order of the commission allowing the street car company to curtail bus service. In this case, as well as in the other, the city maintained that its home-rule charter gave it authority over such matters, while the latter took the position that the charter could not take away constitutional powers.



## New Jersey

### Attack Camden City Plant

THE Public Service Electric & Gas Company, with four other taxpayers, on December 7th filed 33 reasons with the supreme court why Camden should not be allowed to build the municipal light plant authorized in its recent election.

The argument is raised that to borrow the money from the Federal government the city would exceed its borrowing capacity.

It is claimed that the Federal government has no legal right to give or lend the money to the city of Camden to build the electric

light plant; that the city had no authority to apply for such a loan; that the Home Rule act under which the referendum was held is illegal because its title is not comprehensive enough, and that the referendum was fraudulent.

The 33 reasons cover every phase of the matter.

The bill containing the 33 points and the city's reply will come before the New Jersey Supreme Court for a hearing the third week in January on a writ of review granted by Justice Frank T. Lloyd at Camden on November 20th.



## New York

### Edison Workers Reject Unions

VOTING upon various proposals regarding unions and collective bargaining, after considerable preliminary differences, employees of the New York Edison and United Electric Light & Power companies overwhelmingly favored organizing outside of the American

Federation of Labor or any independent union, according to the *Electrical World*.

Notice has been served by the Milwaukee Electric Railway & Light Company, a subsidiary of the North American Company, through its president, that it would not tolerate efforts of organized labor to be recognized by the utility company.

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Officials of outside labor unions were told that the electric companies would continue to deal with labor matters only through the Em-

ployees' Mutual Benefit Association, a company organization, rather than doing business with outside parties.



### North Dakota

#### Devils Lake and Crosby Vote Municipal Electric Plants

DEVILS Lake voters approved by a large majority construction of a municipal power plant at a cost not to exceed \$400,000 in a special election on December 4th. The vote was 1,310 to 657. Devils Lake has a population of 5,451.

The election climaxed an intense two-weeks' campaign by proponents and opponents of the power plant project.

The Ottertail Power Company, whose franchise runs for nine more years, maintained present rates are not discriminatory and are as low as places where municipal plants are operated. Also opposing the project was a taxpayers' committee which contended the city should not go into debt for the plant and that the bonds to be issued were a direct obligation upon the taxpayers.

It is expected that the city commission will take immediate steps to file an application with the state public works board for a Federal grant and loan.

Voters of Crosby favor the construction of a municipal power plant, and the issuance of

not to exceed \$60,000 in bonds for its erection.

At a special election voters balloted upon two propositions, one whether the city should erect a power plant, and the second whether bonds not to exceed \$60,000 should be issued, "such bonds to be secured by a mortgage upon said electric light and power plant, and to constitute a special obligation of the city payable solely and exclusively out of the earnings derived from the operation of such electric light and power plant and not a general obligation of the city payable out of money raised through taxation."



#### Two Counties Seek Revaluation

PETITIONS from every town in Williams county, with the exception of Temple, requesting a revaluation of the Montana-Dakota Electrical Company seeking toward a reduction in rates, are in circulation and are to be forwarded to the North Dakota Board of Railroad Commissioners. Similar petitions are in circulation in Drake county, it has been reported.



### Ohio

#### Defiance Vetoes City Plant

VOTERS in Defiance refused to support the city council's plan for a municipal light plant, preferring instead a reduction in rates, it was shown by a vote of 2,039 to 1,596 in a special referendum on December 6th.

The Toledo Edison Company sponsored the election after the council legislated to issue \$343,000 in bonds.

An offer that had been made by the electric company to reduce rates was a big factor in deciding the Defiance issue, the Youngstown Telegram said.



#### State Seeks \$5,300,000 PWA Loan for Rural Electrification

THE rural electrification committee of the state highway commission has announced it will ask authority of the commission to seek

a loan from the Public Works Administration to inaugurate a rural electrification program including 440 projects to be undertaken at a total cost of \$5,355,700. The initial request will be for \$1,162,200 for 97 projects.

Announcement of the committee's decision was made after it had spent several hours studying a report submitted by a member of the electrical utilities division of the railroad commission, and said the report was "very satisfactory."

Application for the loan will be made as quickly as possible, it was said. The 97 "initial projects" to serve 4,887 rural and farm consumers who have expressed their willingness to contract with the highway department for service were listed. The estimated cost of these projects is \$1,162,200, inclusive of highway lighting.

In addition to these 97 initial projects, there are 11,952 other consumers comprising 343 other projects that were surveyed by county farm demonstration agents in the latter part of 1932, the report said.

## PUBLIC UTILITIES FORTNIGHTLY

Authority for the survey and application for a loan from the government is given in a 1933 legislative act. The act designated the highway commission as the body to survey the rural electrification needs of the state and secure the money from the proper Federal agency. The loan is to be self-liquidating, with the revenue derived from the payments of consumers.

### Plan Project for Miami River

PLANS are being developed for a \$26,000,000 hydroelectric development project along the southern end of the Miami river, ac-

cording to an Associated Press dispatch from Cincinnati in the *Indianapolis News*.

The project would include the construction of three hydroelectric dams and the canalization of the river for forty-one miles by the Federal government.

The government, the paper says, has tentatively approved the canalization features.

The benefits seen in the project, as pointed out by the newspaper, are the employment of more than 7,000 men for more than two years; transformation of the river into an important freight transportation system, and providing new pleasure resort facilities by the establishment of two lakes covering 2,900 and 4,200 acres, respectively.

## Pennsylvania

### Board Retains Gas Rate

THE Philadelphia Municipal Gas Commission has fixed the 1934 gas rate at its present figure of 90 cents per thousand cubic feet. It was disclosed when a letter from the commission was read before the city council meeting December 5th.

The communication was dated November 27th, the same day that the city controller made public the report of his audit of the books of the Philadelphia Gas Works, operating lessee of the city gas plant, according to a statement in the *Philadelphia Record*.

In his report, the controller charged excess profits were being reaped by subsidiaries of the United Gas Improvement Company, of which the Philadelphia Gas Works Company is a subsidiary. Proper economies in operation, he declared, would readily permit a reduction of 17½ cents in the 90-cent gas rate.

The council president ordering the controller's report printed fully in the *Journal of Council*, asserted: "I realize there will be a lot of controversy over this matter."

### 50,000 Consumers Affected by Power Rate Reduction

MORE than 50,000 residential and commercial consumers in the Scranton area benefit to the extent of \$298,686 annually through reduced rates of three electric power and light companies announced by the public service commission, according to the *Harrisburg Courier Journal*.

Effective January 1, 1934, the reductions apply to 46,850 accounts taking residential service and also benefit about 6,520 commercial lighting customers.

Brought about through informal confer-

ences between the commission and officials of the Scranton Electric Company, Lackawanna Light Company, and the Moscow Electric Company, the new rates reduce from 8 to 7 cents the kilowatt-hour charge for customers using up to 30 kilowatt hours monthly, eliminate a "customer charge" of \$1 now applicable to 29,000 accounts, and provide substantial reductions for consumers using from 30 to 50 kilowatt hours monthly.

### Merchandising Receipts Are Subject to Tax

THE supreme court in an action by the commonwealth against the Philadelphia Electric Company has ruled that receipts of an electric light company derived from the sale of lamps, wire, sockets, and the like, and from the rental of motors, sweepers, cleaners, and other machines and devices, and also from labor charges in connection with jobbing work and the installations for service are subject to the gross receipts tax imposed by a Pennsylvania law which provides that every electric light company engaged in electric light and power business shall pay a tax of eight mills upon the dollar from the gross receipts of the corporation received from electric light and power business. The company had contended that the tax was limited to gross receipts from the sale of current to produce light and power.

The court also held that the taxing of gross receipts from the sale of current to other utilities within the state for resale by them and taxing the gross receipts of the distributing utilities from such resale did not constitute double taxation of the electric light company. The court pointed out that the electric current was not taxed, but that the tax was on gross receipts.

## PUBLIC UTILITIES FORTNIGHTLY

The tax was held to be a franchise or privilege tax and not a tax upon property, and hence the rule as to double taxation did

not apply. But this ruling was not considered important in view of the conclusion that there was no double taxation.



# Tennessee

## Knoxville Rate War Looms

**A**N electric rate war is likely in Knoxville if the Public Works Administration grants the city's application for a loan to build a distribution system to supplant the service rendered by the Tennessee Public Service Company, a subsidiary of the National Power & Light Company, according to the *Wall Street Journal*.

At the meeting of the Tennessee PWA board at Nashville on December 8th, the loan and grant to Knoxville for a distribution plant was opposed by the Tennessee Public Service Company on the grounds that the Tennessee Valley Authority Act was not intended to destroy millions of dollars now invested in electric plants.

If the grant was made, the utility company declared, it would stay in business and slash rates as a result of which the city would get less than 50 per cent of the business.

The utility company argued that it had millions invested in Knoxville, was a large taxpayer, and was giving the finest service. It also contended that experts had erred in their advice on the municipal plant.

## Start Statewide Rate Probe

**A** STATEWIDE investigation of the records and operations of electric utilities in Tennessee is being undertaken by the Tennessee Railroad and Public Utility Commission with a view to determining the possibility of rate modifications, according to the *Wall Street Journal*.

The commission indicated also that substantial reductions in the rates of Memphis

Power & Light and West Tennessee Power & Light, both National Power & Light subsidiaries, will be made soon.

The Memphis Company recently conferred with the mayor of Memphis offering some reductions on account of present business conditions after the mayor had started investigation of the possibility of using TVA power. The mayor agreed to a conference with the company but will continue his inquiry concerning TVA power.

Though a reduction in its light and power bill may be expected, hopes of a cut in the present gas rate are doomed, the *Memphis Commercial Appeal* stated, adding that it was authoritatively learned that the city, because of an existing contract with the gas company, is not in a position to demand a reduction in its rates, since a survey has failed to show a sufficient gas consumption to warrant it.

## Cities Seek Phone Rate Cut

**K**NOXVILLE, Nashville, Memphis, and Chattanooga, as well as some of the smaller cities of the state, are cooperating in seeking a 20 per cent reduction in telephone rates, and have employed an Indianapolis engineer to make a survey of the properties of the Southern Bell Telephone & Telegraph Company in the state, according to the *Knoxville Journal*. The engineer's report will be submitted to the Tennessee Railroad and Public Utilities Commission asking for a rate reduction, the Knoxville director of law said.

The Knoxville *Journal* pointed out that an impetus to the movement has been given by the 25 per cent rate cut in the state of Georgia.



# Texas

## PWA Goes to Aid of Dallas Waterworks Plan

**A**PPPLICATION for a loan of \$600,000 and outright grant of \$200,000 from the Federal Public Works Administration has been made by the Dallas City council to finance an additional improvement program in the water department. The loan would be repaid

out of the department's revenue in six years, according to a statement in the *Dallas Morning News*.

The Public Works Administration recently has given the department a grant of \$54,000 to match \$153,500 in the current budget. The two plans would make possible an improvement program of \$1,007,000 and help fill the needs of the municipal utility system, the *Morning News* stated.

## PUBLIC UTILITIES FORTNIGHTLY

### City Drops Plans for Own Plant

AN order by the Texas Electric Service Company to reduce Fort Worth commercial rates, effective January 1st, to the level of those charged in Dallas, ended that city's project to build a municipal plant with public works' funds, it was announced following a conference between city and light company officials.

A city councilman, who was a leader in the rate reduction fight, said that the offered reductions will mean a saving of approximately \$150,000 annually to commercial consumers.

The city council had given the utility company a week to work out a rate reduction be-

fore it made application to the Public Works Administration for \$2,228,000 to build a municipal plant.

### Hillsboro Approves City Plant

FINAL decision for the installation of a municipal electric light, power, and water pumping plant was made at a special meeting of the Hillsboro council, when a bid of \$67,460 for the installation of engines, generators, and equipment was accepted.

Authorization for the drawing up and signing of the contract was given.

## Washington

### Senator Renews Effort to Put State in Power Business

A MOVE to bring the power issue before the special session of the Washington legislature was revealed in Olympia on December 5th by Kenneth Harlin, Seattle rate engineer and co-worker of United States Senator Homer T. Bone in the latter's power program, according to an Associated Press dispatch in the *Seattle Daily Times*.

Harlin announced a resolution providing for the submission of a constitutional amendment to the voters in 1934 which is being prepared by Senator Bone for introduction in the state senate.

The proposed amendment, Harlin said, will put the state in the power distribution business, at which time electrical energy from existing municipal projects and the Grand Coulee and Bonneville power dams would be made available to all communities in the state.

Power would be sold at wholesale to power districts authorized in the Grange Power bill, adopted by the voters several years ago, Harlin said.

Under Senator Bone's sponsorship, a similar resolution was introduced in the last session of the legislature. It was defeated by a small majority, according to the *Seattle Daily Times*.

Under the constitutional amendment being drawn by Senator Bone, the state would be authorized to control and develop the water power within the state, Harlin said. It would be empowered to lease water and water-power sites for development of power, and to transmit, distribute, and sell electric energy.

The amendment also would authorize the state to enter into a contract with the Federal government and with political subdivisions of the state for the purchase or sale of power.

The state would be authorized to incur in-

debtedness not exceeding 6 per cent of the assessed valuation of all property to provide funds to carry out the provisions of the amendment, Harlin explained.

### Telephone Rate Case Rehearing Assured by Supreme Court

THE state Supreme Court cleared the way December 5th for a Department of Public Works rehearing in the Everett telephone rate case.

The supreme court affirmed a Thurston county court judgment reversing a departmental order setting up a new rate schedule for the Everett exchange of the West Coast Telephone Company. The lower court ordered the case remanded for further proceedings.

The telephone company appealed to the supreme court on the grounds that the lower court exceeded its jurisdiction in remanding the case for a rehearing. The company contended the judgment should have been limited to only a reversal of the department's order.

The supreme court held the lower court, in remanding the case, acted in pursuance of express authority given by statutes.

The rate order, issued by the old Department of Public Works about a year ago, followed a previous decision ousting the telechronometer system of metering telephone charges to Everett customers of the company.

The rate schedules the old department sought to place in effect were designed to replace those filed by the company after the metering system was ousted. The company, however, attacked the order in court on the ground the rates set up by the department were inadequate. Until the case is finally settled the company's rate schedule will remain in effect.

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# The Latest Utility Rulings

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## Georgia Power Company Rates Reduced Over One-half Million Annually

**R**EDUCTIONS in electric power rates for domestic customers in the territory served by the Georgia Power Company were ordered on November 29th by the Georgia Public Service Commission and accepted by the power company. The domestic rates were slashed from as much as 40 per cent in the lower brackets down to 3 per cent in the upper brackets. It was estimated that the domestic reductions, with those for commercial customers would cost the power company between \$825,000 and \$850,000 a year. The reduction in domestic rates alone was calculated to be about \$660,000 a year, and came as the result of promises between the commission and the power company.

Chairman Wilhoit made public the new order, concurred in by the entire commission with no comment other than

a verbal statement that the board wanted it understood that the "new schedule was promulgated by the commission and accepted by the power company and not promulgated by the power company and accepted by the commission."

President Preston S. Arkwright, of the Georgia Power Company, stated in announcing the acceptance of the domestic rate reduction that the "sharp cut" was being accepted because of economic conditions. He said that "the cut is not, in any sense, justified by the company's earnings, or by the present level of business." Governor Eugene Talmadge, of Georgia, who has been active in the recent utility rate controversies of the state declined to make any comment immediately following the announcement of the reduction. *Re Georgia Power Co.*



## Maryland Commission Orders Telephone Rate Reduction

**T**HE Maryland Public Service Commission in one of the most important decisions of its history has reduced statewide telephone rates of the Chesapeake & Potomac Telephone Company, involving all the Bell properties in Maryland, by an amount estimated at \$1,200,000 a year.

The case was instituted on the commission's own motion in January, 1933. Hearings were begun the following spring and lasted well into last summer. The case was submitted for deliberation on September 18th and the opinion was made public November 28th. The reduction constitutes approximately 10 per cent of existing telephone rates, but Chairman West in a newspaper state-

ment warned that this was only a general average and that some of the rate structures of the company were so complicated that it would be difficult to tell immediately what the amount of the reduction would be in each particular class of service.

The case is distinguished by the unusual methods followed by the commission in estimating the rate base of the company. Because of the fact that the commission estimated that it would take at least two years to conclude the case if an original and complete appraisal of the properties were attempted, as well as result in high expense for both the state and the utility, the commission felt that a short cut was warranted



## PUBLIC UTILITIES FORTNIGHTLY

if the computations could be based upon equitable ground. It appears that the commission had made an original appraisal of the property in 1916. Subsequently a Federal district court, reviewing a commission order in 1924, made a finding as to the rate base of the properties in question as of the end of 1923 by using as a spot appraisal or basic figure, the commission's finding of 1916 and adding the cost of subsequent additions trending the entire result with price index numbers. Recent commission decisions adopted this method to obtain a rate base for 1932. In other words, the commission adopted the court's 1923 finding of value as a basic figure and added the cost of subsequent additions and trending the entire result with price indices of various commodities. Existing cost trends were represented in the figures used by the commission's chief auditor.

The commission rejected a somewhat similar method proposed by the company which differed in that it applied price index numbers as reflected in the company's books for the cost of equipment purchased from the Western Electric Company. The commission pointed out that the result of the company's method produced such curious results which were so at variance with the experience of people generally and the performance of other commodities as to make the entire method of questionable accuracy. Concerning the use of the commodity price trend, the commission stated:

"We believe that fair value of a public utility property such as this, for rate-making purposes, should, and does, trend directly with the average purchasing power of the dollar and that a trend or series of index numbers to indicate fair value with a high degree of accuracy can be developed by combining the several trends offered by Mr. Smith in such manner as to give reasonable consideration to the influence that each reflects upon the average purchasing power of the dollar from year to year. The commission has attempted to develop such a trend from Mr. Smith's exhibits."

As a result of this method, the commission found the present reproduction

cost of the properties to be \$40,527,917 and—after reduction of accrued depreciation—\$33,210,000. The commission applied its valuation method not only to the value of the physical property, but also to the allowance which had been made by the court in 1924 for going value which resulted in an allowance of \$731,762.

The matter of depreciation, both accrued depreciation and the annual allowance for future depreciation, was treated in an equally interesting manner. As to accrued depreciation, the commission found that the amount in the company's depreciation reserve was the most dependable estimate of the accrued depreciation of its property. This ruling resulted in part from a situation which might be said to be peculiar to the utility involved in the case. A number of years ago the company under commission order established a depreciation reserve to be held by the company as trustee for the benefit of its consumers in an amount of not more than 20 per cent of the value of the physical property. The company claimed in a recent case that a recent engineering inspection of the property indicated that the accrued depreciation was slightly less than 14 per cent, and that the amount in the reserve should be regarded as the property of the company. The commission did not agree, however, pointing out that by reason of the company's long compliance without question with its former order, the amount in the reserve should still be regarded as the property of the consumers, and that to hold otherwise would amount to an admission that the consumers had been charged during the preceding years more than was necessary for the replacement of depreciated property.

As to annual depreciation, the commission said that it had under a Supreme Court decision no alternative but to base its allowance upon value rather than book cost. A straight-line composite allowance of 3.5 per cent was made for this item. An allowance of \$660,-

## PUBLIC UTILITIES FORTNIGHTLY

863 was made for working capital. On the subject of return, the commission found that 6 per cent on the rate base as found was "not only not confiscatory, but in view of the reduced returns now

yielded by businesses of all kinds, and the increased purchasing power of the dollar, is fair and reasonable for this company." *Re Chesapeake & Potomac Telephone Co.*



### Federal Court May Not Exercise Rate-making Powers for State Operations

THE Central Kentucky Natural Gas Company was engaged, under a franchise contract effective February 25, 1927, in furnishing gas in the city of Lexington. The contract provided that the rates should be "reasonable" and stipulated that in any disagreement the Kentucky commission should determine what would be a reasonable rate. The utility was charging 60 cents per thousand cubic feet when a disagreement developed which resulted in a commission order requiring the company, pending a determination of the rates, to set aside 10 cents out of each 60 cents charged. Subsequently the commission fixed a reasonable rate of 45 cents and ordered the utility to distribute the impounded fund to its consumers. The company, however, declared that the commission's order was confiscatory and sued for an injunction in Federal court.

The Federal district court found that the 45-cent rate was confiscatory and further that a 50-cent rate would have been reasonable. The court agreed to make the injunction permanent if the company would agree to the 50-cent rate and to distribute the impounded fund collected in excess of the 50-cent rate. This the company refused to do, whereupon the Federal district court entered a decree denying the injunction and directing a proportionate amount of the impounded fund to be redistributed. The gas company appealed from the order.

Now comes the Supreme Court of the United States reversing the lower court and holding that the latter had abused its equity power by attempting to fix a rate different from the 45-cent rate.

The higher court was of the opinion that the lower court could exercise its equity power only to the effect of approving or restraining the enforcement of the state commission's order, but that its own attempt to fix a new and different rate was not only the usurpation of rate-making prerogatives, but was exercised in derogation of the power of the state, which, the higher court held, may not thus be deprived of its right to make a new rate if the confiscatory rate is enjoined.

However, the Supreme Court did not declare the 45-cent rate was confiscatory on the basis of present values and costs, and left that question open for further finding by the state commission on that point. The lower court, it appeared, had based its findings on the valuation of the property as of December, 1926, a date shortly preceding the effective date of the franchise, and more than five years before the date of the finding of confiscation. Since that date the wholesale price paid by the utility for its supply of natural gas had increased 10 cents per thousand. Evidence of this increased price was likewise excluded. The Supreme Court stressed the fact that the rate should be based on the basis of present-day values and costs. The lower court's decree was reversed and the cause was remanded with instructions to enter a decree enjoining so much of the commission's order as fixes the rate to be charged for gas distributed by the utility. The court was instructed to state in its decree that the latter was without prejudice to the right and power of the commission to fix a just and reasonable rate, and that

## PUBLIC UTILITIES FORTNIGHTLY

it made no adjudication of the validity of the 45-cent rate fixed by the commission, so far as it may be affected by changed conditions after February 25,

1927, the effective date of appellant's franchise. *Central Kentucky Natural Gas Co. v. Kentucky Railroad Commission*.



### Supreme Court Sustains South Carolina Motor Vehicle Law

THE Supreme Court of the United States continued its trend of decisions approving of more stringent state regulation of motor carriers with an opinion handed down December 4th stating the constitutionality of the South Carolina Motor Vehicle Act which regulates and taxes private motor carriers, both intrastate and interstate.

The principal points of attack were as follows:

1. That the law was constitutionally discriminatory in that it exempted carriers of agricultural products;

2. That it was constitutionally discriminatory in that it exempted haulers of lumber "from the forest to the shipping point";

3. That it was an unconstitutional interference with property rights in that it required carriers to carry indemnity insurance;

4. That it was an unconstitutional interference with the property rights of carriers in that it attempted to regulate the rates of private carriers.

Answering these claims in the order set forth above, the court's opinion held:

1. That the exemption of agricultural carriers applied only to those principally

engaged in such carriage and not to one merely incidentally engaged in farming or dairying, and that under the construction of the commission in enforcing the statute (a construction not disapproved by the state court) the clause applied only to such casual transporters of agricultural products;

2. The exemption in favor of lumber haulers related only to a limited class of transportation and applied simply to places of shipment;

3. The indemnity insurance clause as construed by the state court required insurance only for the protection of the public and not for the shippers. The highest court held that such a construction rendered the clause constitutionally inoffensive, notwithstanding the claim that the state construction was contrary to the plain terms of the act. The court pointed out that the state court's construction was binding under such circumstances;

4. The claim as to the regulation of rates of private carriers was dismissed because of the fact that the commission had not as yet attempted the exercise of the power conferred. *Hicklin et al. v. Coney et al.*



### Other Important Rulings

THE Illinois commission has ruled that the revenues of a combination electric light and steam-heating utility are not sufficient to justify an order reducing heat rates and that the petition asking for such reduction should be denied, notwithstanding claims that the rates were of themselves prohibitive.

The petitioners—citizens of the city of Decatur—contended that the reduction in the utility's revenue for heating service had been due to the exorbitant prices charged and that a reduction would make such increase in consumption as to result in a corresponding increase in revenues. Chairman Lindheimer ruled